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ABSTRACT

This student manual and answer book/teacher's guide focus on the industry-specific information and skills needed by students who plan to enter, or who may already be receiving, training in a financial institution, such as commercial banks, savings and loans, and credit unions, as well as pawn shops, credit departments of retail stores, and other related financial industries. The student manual contains 18 assignments divided into these parts: beginning one's training, gaining product knowledge, applying marketing concepts, and employment opportunities. Each assignment consists of a list of objectives, informational material, summary, and review questions. The answer book/teacher's guide contains the following: suggestions for using the publication for independent study and classroom instruction; assignments and objectives correlated with competencies identified by the Secretary's Commission on Achieving Necessary Skills (SCANS); SCANS competencies and skills; and answers to the questions found at the end of each assignment. Additional learning activities are provided for each assignment. Each activity follows this format: objective, background, instructions, and all necessary information or examples. A series of brief summative quizzes with answer keys, one for each assignment, provides an alternate method of student assessment. (YLB)

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MARKETING IN FINANCIAL INSTITUTIONS

ED 376 297

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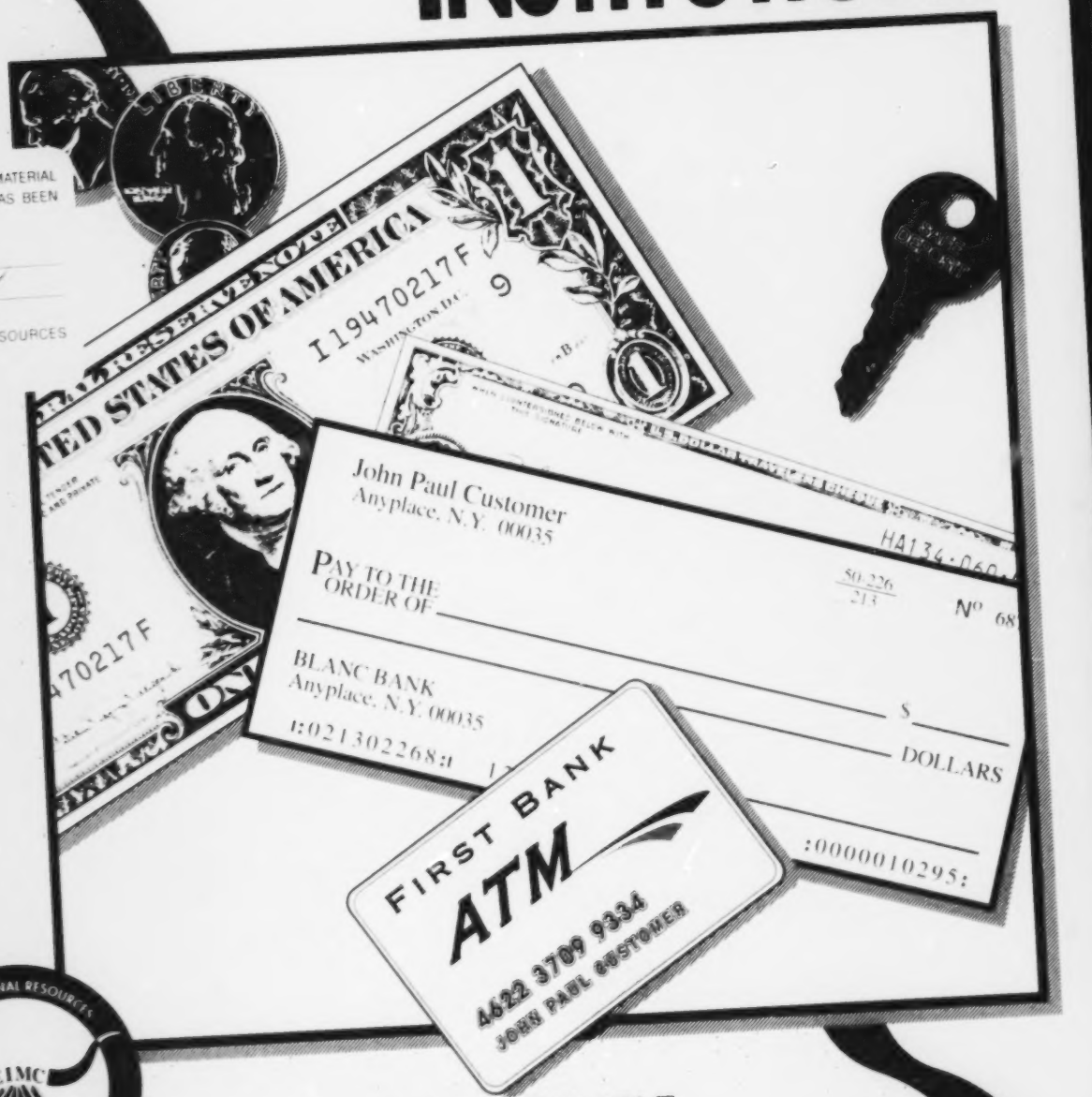

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Marketing Education

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Marketing in Financial Institutions

By

Sandra Bybee

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Curriculum Specialist / Suzanne G. Faught
Editor / Teri C. Sperry
Artists / Debra Dionisio and Elinor Gamache
Publishing Technician / Kathryn N. Roberts
Publications Coordinator / Jonathan Griffith
Director, Educational Resources / Mitch Cooper

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Foreword

Marketing in Financial Institutions is one of the expanding series of EIMC/Educational Resources publications on the skills and tasks required of employees in specific marketing occupations. Unlike previous publications of this type, it offers insight into the various environments in which training can take place—commercial banks, savings and loans, and credit unions, as well as in pawn shops, credit departments of retail stores, and other related financial industries.

The material is presented in ways that will introduce you to the information and thought processes needed by persons who are moving up the ladder in a career. By answering the questions at the end of each assignment and by doing selected learning activities, you will begin to get a clearer idea of what is done and why it is done. The activities are designed so that you do not actually have to be employed at a training station, but can gain information by research, observation, and discussion with employees in financial institutions. By doing one or more of the learning activities found in the Answer Book/Teacher's Guide, you will develop a variety of the higher-level thinking skills now recognized as necessary to success in marketing.

Sandra Bybee wrote *Marketing in Financial Institutions* and is currently a freelance writer and editor. She has had practical work experience in financial institutions, including a bank, a savings and loan, and a credit bureau. She received her bachelor's degree in journalism from the University of Oklahoma and her secondary-level teacher certification in journalism and English from The University of Texas at Austin.

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Suzanne G. Faught
Marketing Education Curriculum Specialist

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(2) operation of school bus routes or runs on a nonsegregated basis;
(3) nondiscrimination in extracurricular activities and the use of school facilities;
(4) nondiscriminatory practices in the hiring, assigning, promoting, paying, demoting, reassigning, or dismissing of faculty and staff members who work with children;
(5) enrollment and assignment of students without discrimination on the basis of race, color, or national origin;
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Where a violation of Title VI of the Civil Rights Act is found, the findings are reported to the Office for Civil Rights, Department of Health, Education and Welfare.

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TITLE VII, CIVIL RIGHTS ACT OF 1964: EXECUTIVE ORDERS 11246 AND 11375; TITLE IX 1973 EDUCATION AMENDMENTS: REHABILITATION ACT OF 1973 AS AMENDED; 1974 AMENDMENTS TO THE WAGE-HOUR LAW EXPANDING THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967; VIETNAM ERA VETERANS READJUSTMENT ASSISTANCE ACT OF 1972 AS AMENDED IN 1974.

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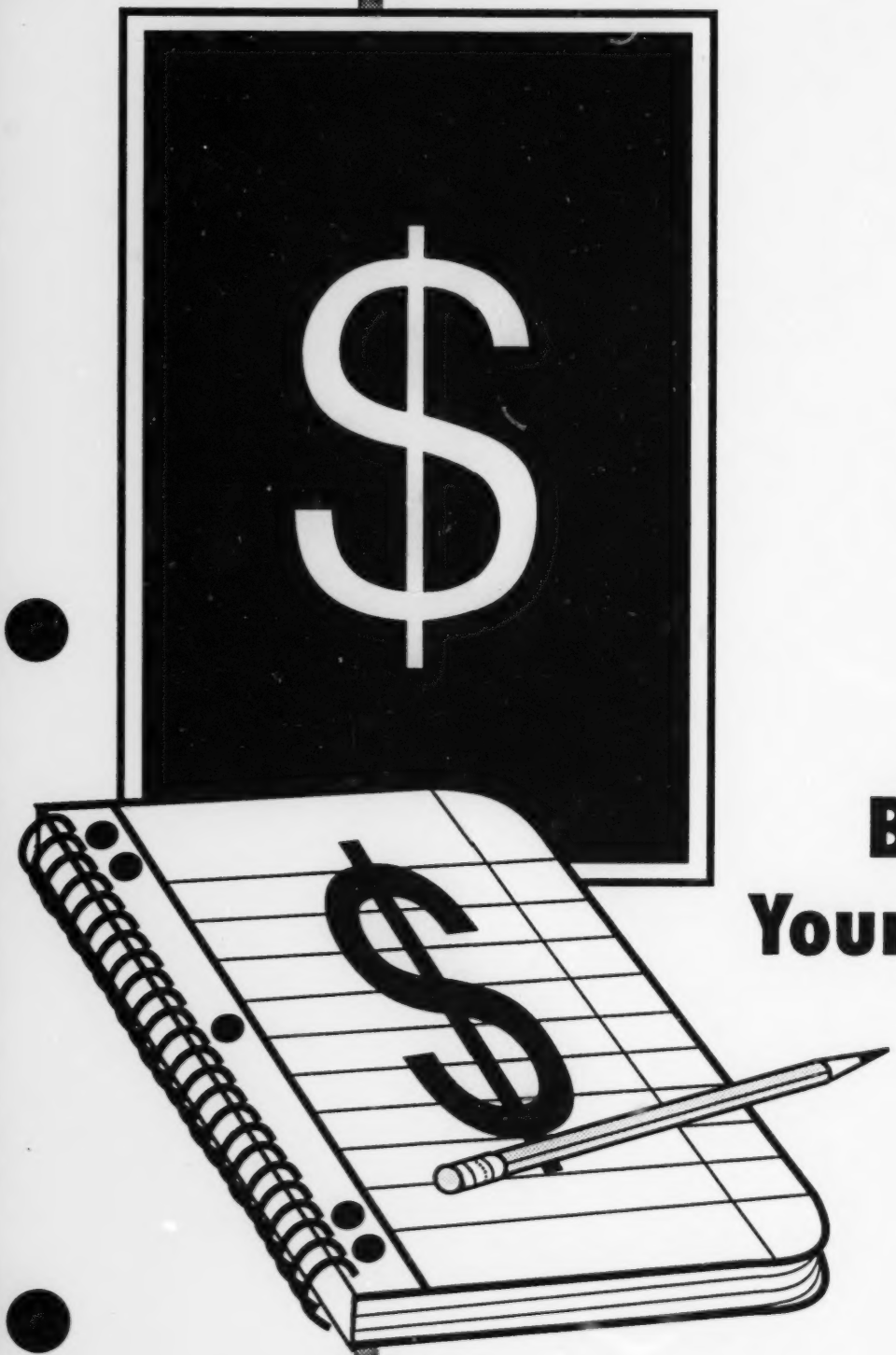

PART I

Beginning Your Training

1

The Financial System

Objectives: After completing this assignment, you will be able to—

- describe the four forms of early exchange;
- describe the problems that existed in the banking systems of the colonies before 1791;
- name the improvements afforded by the two Banks of the United States;
- explain why counterfeiting was prevalent in the nineteenth century;
- list the four major points of the National Bank Act; and
- describe the weaknesses of the National Bank Act.

To understand the current financial system in which Americans operate, a look into its history is important. Banking emerged slowly in this country and flourished because of the needs of the people. As times changed, so did financial institutions. The system's shape today is the result of an innovative, ever-changing industry as well as a series of laws and regulations passed by Congress to control the banking industry.

Early Forms of Exchange

Before currency became the universal method of acquiring goods and services, other methods were used. Four main forms of exchange were practiced since almost the dawn of history. **Barter,** the trading of one item of value for another, was perhaps the oldest method. It allowed people to get what they wanted from others who wanted what they had. As long as both parties could find one another, the system worked well.

To refine the barter concept, **commodity money** was created. This came about when people took certain items and set specific values on them. Everyone in the community agreed on these values. For example, salt, fishhooks, cattle, gunpowder, and other items were each acknowledged by the community to carry a specific worth. In this way, the person could trade a certain amount of salt for gunpowder or whatever was desired. The system worked well, except that the objects were often large and not easily portable.

The next form of exchange was known as **representative money** because it required a receipt. It represented items left on deposit with a trusted person in the community. The holder of the receipt could exchange it for a desired commodity, and the new holder could then present it to the original trusted person for the item it represented.

Eventually the trusted persons who held the items realized that not all the receipts would be presented at the same time for payment. They began issuing more receipts than there were items on deposit, on the promise of the items' delivery. This

Early American traders understood the concept of commodity money, as they traded man-made goods for farm products.

THE EARLY YEARS

Important Events

1791—First Bank of the United States, Philadelphia, is chartered for 20 years.

1816—Second Bank of the United States, Philadelphia, is chartered for 20 years.

1836—As Second Bank's charter expires, state chartering surges.

1837—Cotton prices collapse. Ensuing panic brings mass bank failures.

1841—President John Tyler vetoes new national bank charter. Cabinet resigns in protest.

1842—Louisiana is first to require reserves for bank deposits.

1848—Gold is discovered in California, attracting miners and deposit takers.

1863—National Bank Act is adopted. This will become the basis for today's banking system.

became known as **credit money**, which is the monetary system most countries now use. The paper money and coins are really receipts for the gold and silver on deposit with the government.

Banking in the Colonies

Because the earliest settlers to America came from a variety of countries and backgrounds, they brought with them differing concepts about many things, including banking. The strong government-controlled banks of England, France, Germany, and Sweden left a mark on the colonists. In the early years, independence from government control was an overriding concern. Colonists wanted no banks tied to a heavy-handed government, and in the colonies, anyone could establish a new bank with little difficulty and with an absence of government regulation, supervision, and examination. After the American Revolution, each of the thirteen colonies established its own banking system, and there was no national organization.

The currency caused most of the banks to fail. Gold and silver were hard currencies, but not much was available. It usually flowed away from the colonies in payment for goods bought from European suppliers. As a result, many types of paper money began to appear to meet local needs. Banks went out of business frequently, and the public distrusted paper money and **bank notes**, promissory notes issued by a bank, for fear the issuing bank was not even in business anymore. There was no **standard** paper **currency**, or common money accepted by all parties. To make matters worse, the Continental Congress in 1777 distributed 42 separate forms of currency, and the individual states issued even more.

Banks of the United States

In the midst of this confusion was Alexander Hamilton, then secretary

of the treasury, who founded the Bank of New York in 1784. He proposed the formation of a new bank that would have the backing of the federal government. His plan was approved by Congress, and the *First Bank of the United States* opened in Philadelphia in 1791. It was the first bank to function as the fiscal agent for the government and to make loans to the treasury as well as to private individuals. Granted a twenty-year charter, the bank gradually opened eight branches to disburse and collect notes that could be exchanged for gold or silver. It was a highly effective bank, but strangely enough, the government refused to renew its charter, in large part because the public feared that too much monetary power was being lodged in one place.

At the end of the First Bank's charter in 1811, the same weaknesses that had existed before its creation resurfaced—but on a much larger scale because there were more people. In the next five years, banks were poorly run, undercapitalized, and unsuccessful. By 1815, more than 200 banks were issuing their own notes.

The *Second Bank of the United States* was established in 1816, again for a twenty-year period. Similar to the first, the Second Bank was well capitalized and properly managed. With 29 branches, it thrived. It even withstood a challenge in the Supreme Court in 1819, and it was decided that the bank was a necessary and proper instrument of the federal government. However, when Andrew Jackson was elected president, he opposed all forms of centralized government. He withdrew federal funds, and the bank ceased to exist in 1836.

A period of disorder ensued for almost thirty years. The need for a sound and trustworthy banking system had never been greater, but none existed. In the years before the Civil War, the population expanded, people prospered economically, and the climate was ideal for the growth of commercial banking. The needs of the people were not met, and of the 2,500 state banks that were formed during the period, more than a thousand closed within ten years of their opening. Each bank issued its own coins and notes, which were easily **counterfeited**, or dishonestly reproduced and used as the genuine item. In fact, counterfeiting became almost a profession.

A Landmark in Legislation

The Civil War created a financial crisis in the federal government. New sources of revenue had to be found to finance the war and keep the government afloat, and the banking system had to be revised and reformed. President Abraham Lincoln's secretary of the treasury, Salmon P. Chase, introduced drastic legislation in 1863 called the *National Bank Act*. It laid the groundwork for the banking system of today.

Four basic provisions were set forth in the act. First, it created a *system of national banks*, privately owned but chartered by the federal government to conduct business. Strict qualifying standards had to be met. Second, the office of *comptroller of the currency* was created in the treasury department. Third, a *uniform currency* was established for all national banks. Finally, the act established a *system of required reserves*. Each bank was to keep cash **reserves**, money held out of circulation, equal to between 15 and 25 percent of its deposit and note liabilities. It permitted regular commercial transactions but did not allow loans to be secured by real estate or the bank's own stock.

The act addressed abuses and problems that had existed up to 1864, but the country was growing.

THE SHAPE OF BANKING

Important Legislation and Decisions

1791—By chartering the First Bank of the United States, the federal government funds a banking system for the first time.

1819—Supreme Court decides that the bank is a necessary and proper instrument of the federal government.

1836—President Andrew Jackson withdraws federal funds from Second Bank.

1853—New York City banks start the first clearinghouse.

1862—Legal Tender Act approves nationally issued paper money.

1863—National Bank Act is enacted to finance the Civil War, creating federally chartered banks.

1907—Major panic results from problems in the National Bank Act.

Words to Remember

bank note—a promissory note issued by a bank, payable to the bearer on demand without interest and acceptable as money

barter—the trading of one item of value for another

commodity money—items that were assigned specific values, upon which everyone in the community agreed, and could be exchanged for desired items of equal value

counterfeit—dishonestly reproduced and used as the genuine item

credit money—the paper money and coins that are receipts for the gold and silver on deposit with the government; the monetary system most countries currently use

representative money—receipt for items left on deposit with a trusted person in the community; could be traded for desired items

reserves—money that cannot be spent by an institution but must remain as protection to the customer

standard currency—common money accepted by all parties

Checking for Understanding

1. List and describe the four main forms of early exchange.
2. What problems existed in the banking system of the colonies before 1791?
3. What kinds of improvements did the two Banks of the United States provide?
4. Why was counterfeiting so prevalent in the nineteenth century?
5. What were the four major points of the National Bank Act?
6. What were the weaknesses of the National Bank Act?

By 1913, the United States of America was made up of 48 states. Checks were an accepted form of payment, an activity that was growing enormously. The problem was that no system existed for the speedy presentation and collection of these checks. It could take weeks for a merchant in Texas who had accepted a check from another state to learn whether or not the check was good. Another weakness of the act involved the money supply. The currency in circulation was tied to the amount of government bonds. In a booming economy, it was desirable to increase the amount of currency so that people could finance transactions.

With the National Bank Act, the opposite occurred, because when the economy prospered, so did the government. It reduced its debt by redeeming its bonds. That meant that the currency in circulation decreased, and the lack of money hurt the economy. Another problem was that the act was so strict that many banks had too little money in reserve. People began to lose confidence, and in 1907 a major panic resulted. A new era in banking was to begin, addressing more complex issues in a more complex society.

Summary

By studying the history of our financial system, you can begin to understand the current American system. Although banking emerged slowly, it changed and flourished in order to meet the needs of its customers. A number of laws and regulations were passed by Congress to control the banking industry. Our current financial system is the result of an innovative, ever-changing industry.

2

The Federal Reserve System

Objectives: After completing this assignment, you will be able to—

- cite the reason for enactment of the Federal Reserve Act;
- name the four functions of the Federal Reserve System;
- describe the check collection system;
- describe the ways in which the Federal Reserve acts as the government's bank;
- discuss how member banks are supervised; and
- explain how the Federal Reserve System tries to control inflation and recession in the economy.

Almost fifty years after the passage of the National Banking Act, in 1913 Congress created the Federal Reserve System. It addressed the growing problems that emerged in a society whose expanding population, thriving economy, and changing lifestyle demanded a more responsive system.

The Federal Reserve System

With the passage of the Federal Reserve Act in 1913, the country was divided into twelve geographic districts. A Federal Reserve Bank, which operates as an independent corporation, was established in each district. Texas is placed in District 11, and the central bank is located in Dallas.

Member banks are local institutions that buy stock in their district's Federal Reserve Bank. As stockholders, they are the owners. Unlike most corporations, the Federal Reserve System is a nonprofit operation. Member banks keep their money at the district bank. In that way, pools of reserve funds can be maintained in every part of the country, rather than concentrated in one area. Each district has its own particular concerns and needs that are not shared with other areas of the country. For example, an oil recession in Texas may not have a great impact on the computer industry of California. Therefore, the assistance one district provides its members to meet their needs may not be the same as that provided by another. Also, the concerns brought to the main Federal Reserve Bank in Washington, D.C., by one district would not be identical to another district's issues.

Four Functions

The Federal Reserve System has four major functions. These are:

- to serve as a banker's bank;
- to serve as the government's bank;
- to supervise member banks; and
- to control the country's money supply.

Serving as a Banker's Bank

Many of the banklike services and information provided by **the Fed** (a shortened form of saying "the Federal Reserve") to its member

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The United States is divided into twelve districts, each with its own Federal Reserve Bank.

institutions are similar to the services those institutions give their customers. Some of the services include collecting checks; wiring money, securities, and information; and supplying cash.

Every day, millions of Americans write checks issued to them by the financial institution where they maintain their account. At the same time, every bank, savings and loan, credit union, or other institution receives thousands of checks daily. The process is a cycle that begins with the person writing the check and ends with its payment by the bank.

Check collection. Every time a check is written, it is sent to the institution on which it is drawn. For example, if a customer writes a check to a department store for clothes, the store sends the check to its own bank. The Federal Reserve helps in check collection by saying to its member banks, "Bundle up your checks and send them to us. We will sort them out and present them for payment, *and* we will pay you."

Wiring money, securities, and information. This saves the financial institution the trouble and expense of sorting the checks and mailing them individually. It also cuts the time for the checks to clear. Because millions of checks are handled each day, the Federal Reserve helped create and operate an automated clearinghouse system to handle electronic payments instead of paper payments. This has reduced paperwork and offered many options to the consumer. The Federal Reserve now uses **Fedwire**, a state-of-the-art communications network, to transfer information, funds, and securities throughout the country.

Supplying cash. When a bank needs more coin and currency than it has on hand to meet its customers' demands, it can order the cash from the Fed branch. The money is shipped by armored car or registered mail. As a result, the Fed must keep a large supply of coin and currency in its vaults. This supply comes from the Bureau of Engraving and Printing (for currency) and the U.S. Mint (for coin).

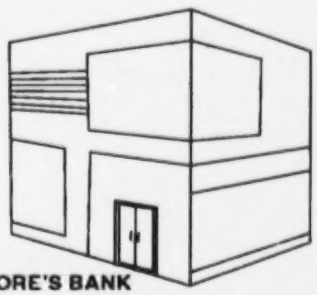
Serving as the Government's Bank

Because the federal government spends more and owes more than any other institution in the world, it uses the Federal Reserve to maintain its checking accounts and to help

Words to Remember

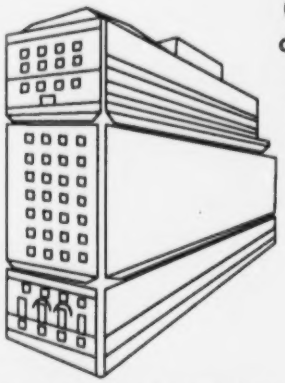
check collection—a service provided by the Federal Reserve to its member banks (The Federal Reserve collects and forwards checks to the appropriate banks for payment.)
discount rate—a level of interest paid by member banks when borrowing money from the Federal Reserve
the Fed—a shortened form of saying "the Federal Reserve"
Fedwire—a state-of-the-art communications network used by the Federal Reserve that transfers information, funds, and securities throughout the country
inflation—an economic condition in which prices rise
member banks—local institutions that buy stock in their district's Federal Reserve Bank
recession—an economic condition in which income, employment, and production begin to decline
unemployment—involuntary idleness of workers

1 The supermarket deposits the customer's check into the supermarket's local bank.



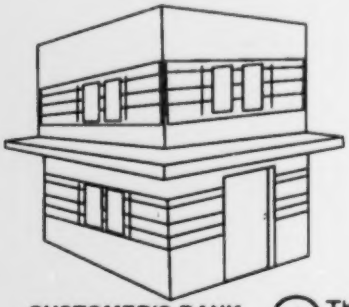
STORE'S BANK

2 The bank deposits the customer's check for credit in its account at the Federal Reserve Bank.



FEDERAL RESERVE BANK

3 The Federal Reserve Bank adds the amount to the supermarket's bank account and sends the check to the customer's bank to be deducted from the customer's account.



CUSTOMER'S BANK

4 The customer's bank may include the paid check in the customer's monthly statement. Some banks no longer offer the service of returning the checks to their customers.

The check collection cycle begins with the person writing the check and ends with its payment by the bank.

pay the money it owes. As the government spends money to build dams, pay soldiers, or do any other job, it writes checks on its accounts with the Fed, which keeps records and sends regular statements, just as any bank does for its customers.

When the government borrows money, it gives the lender an IOU in the form of a certificate. The Fed handles this kind of transaction.

Supervising Member Banks

The Federal Reserve supervises its member banks by issuing regulations about what institutions may and may not do. Financial institutions are required to hold a certain amount of their money in reserve. Federal Reserve bank examiners also scrutinize member banks to make sure that their operations are sound.

If a member bank needs extra money to cover an unexpected large withdrawal from a customer or to lend large amounts, that money can be borrowed from the Federal Reserve. The borrower must meet the Fed's requirements, which include paying a level of interest called the **discount rate** and pledging security.

Controlling the Country's Money Supply

The Federal Reserve tries to make sure that the total amount of money in circulation is about right—not too much, not too little. Too much money can make prices rise, which is called **inflation**. Too little money can cause **recession**, a time when income, employment, and production begin to decline.

To prevent inflation or recession, the Federal Reserve system tries to keep the flow of spending in line with near-capacity production. Since it has no control over production, the Federal Reserve works with spending. It does this by influencing the amount of money consumers, businesses, and governments may spend.

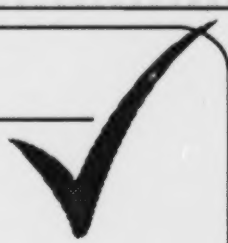
The three basic ways to get spending money are to earn it, to take it out of savings, and to borrow it. The Federal Reserve works primarily through borrowed money. When someone borrows money, a lending institution has the authority to create money in that person's account, and the Federal Reserve can affect the amount of money that is created. By doing so, it controls inflation and recession.

A balance of spending and production at high levels is what the Federal Reserve is after, and influencing the amount of credit is how it goes about accomplishing this goal.

Summary

Through the years, many changes in the Federal Reserve have been made so that it can adapt to the economic needs of its members and the consumers. Even with the changes, it has retained its original character and become more responsive.

Checking for Understanding



1. Why was the Federal Reserve Act passed by Congress?
2. What are the four basic functions of the Federal Reserve System?
3. How does the check collection system work?
4. In what ways does the Fed act as the government's bank?
5. How does the Fed supervise member banks?
6. How does the Federal Reserve control inflation, recession, and unemployment in the economy?

3

The Banking System and Its Structure

Objectives: After completing this assignment, you will be able to—

- describe the four main types of financial institutions;
- discuss how a credit union is different from a savings and loan association or bank;
- explain the governing structure of a bank;
- define the term *charter;*
- explain what is meant by a dual banking system; and
- list at least three ways in which a bank can be classified.

Financial institutions include more than commercial banking operations. Other establishments serve the public in similar ways, meeting their needs and providing important choices in the market. The four main types of institutions are savings banks, savings and loan associations, credit unions, and commercial banks.

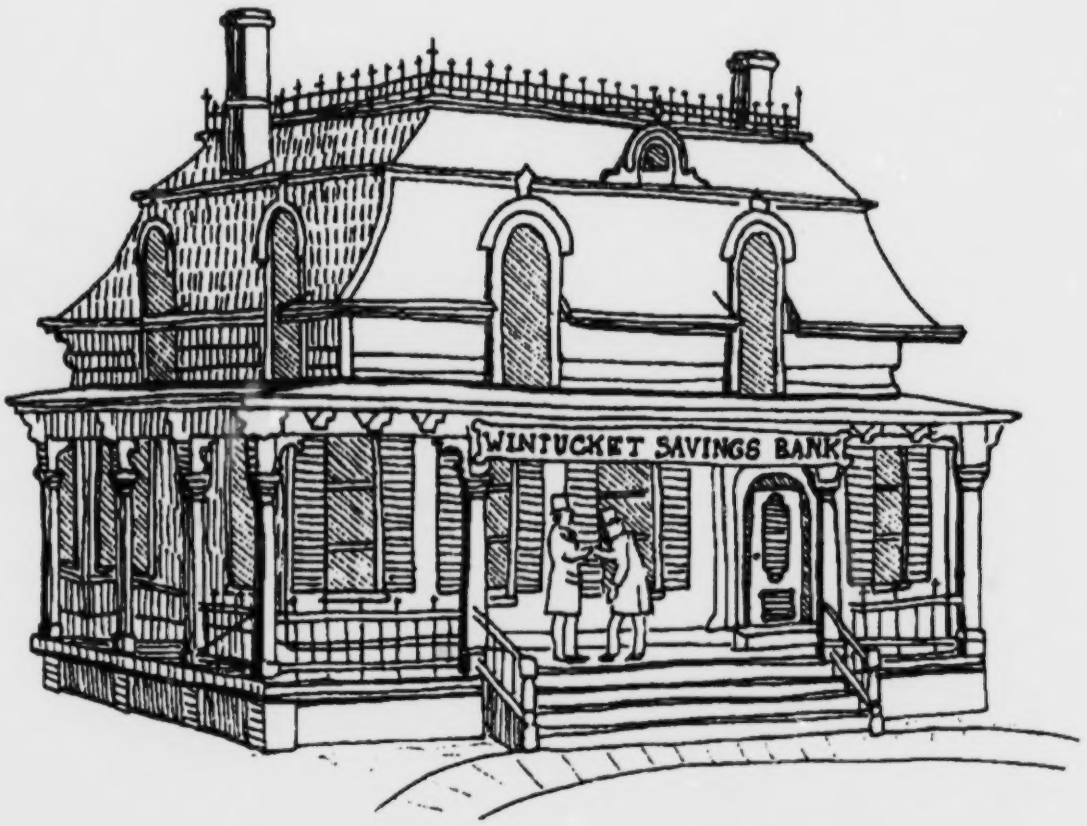
Not too many years ago, a person might open a savings account at a savings and loan association because his or her money would earn more **interest** there than at a bank. Interest is money paid by a financial institution in exchange for using the customer's savings for its own investments. If the same person needed a checking account, he or she would go to a bank to do business. And to borrow money to buy a car, he or she might visit the local credit union because the interest rates would be lower. Today, most institutions offer the same services, and a person can carry out all of these business transactions under one roof.

Even though there are more similarities today than differences in these institutions, their beginnings were separate, responding to a variety of needs.

Savings Banks

First organized in the nineteenth century in Europe, savings banks promoted thrift among people of modest means and offered customers interest on their savings accounts. The first savings banks in the United States opened in 1817 and 1819. They were successful because they served the needs of the less affluent. Funds deposited with the savings banks then, as well as today, were used primarily for home mortgage loans.

Most savings banks are located in northeastern states, and the largest are in New York City. Until the 1980s, most were state-chartered, had no stockholders, and were owned by depositors. In the 1980s, Congress gave savings banks new powers to offer interest-bearing checking accounts and to become federally chartered, stockholder



Savings banks were organized to offer customers interest on their savings and a place to secure home mortgage loans.

institutions. As a result, many of these savings banks have converted to a corporate organizational structure in which stockholders own the bank. They operate under federal charters, and the initials FSB (for Federal Savings Bank) after their names identify them.

Savings and Loans

Savings and loan associations were first called "building societies" because they provided mortgage credit to their customers at a time when banks were usually unwilling to offer such loans. Today they are still the largest providers of mortgage credit to homeowners. Now commercial banks compete for these loans, but S&Ls (or "thrifts," as they are sometimes called) still lend more than twice the amount that banks do.

Savings and loan associations experienced serious problems in the late 1980s and early 1990s, and their numbers decreased—a process that could continue throughout the remainder of the decade. Their functions, however, are almost identical to those of banks.

Credit Unions

Credit unions differ from other financial institutions in that they are operated on a **nonprofit** basis. While banks and S&Ls are in business to make money, credit unions have a different perspective. A credit union's depositors own it. The financial institution does not have to pay taxes, and because of this, it can usually offer lower interest rates on loans.

There are limits, however, on who can deposit money in a credit union. People who share a common bond may hold a **credit union membership**. For example, men and women in a branch of the armed services, people who belong to a large social or fraternal group, employees working for the same

Words to Remember

charter—a document that sets down the rules by which a business operates and grants permission for its operation

credit union membership—membership held only by people who have a link to the common bond shared by all other members of that union

dual banking system—U.S. system that allows banks to be chartered either by the federal government or by the state government

interest—money paid by a financial institution in exchange for using the customer's savings for its own investments

nonprofit—not operating solely for the purpose of making money for the owner

thrift—another term for savings and loan

employer or type of employer, or members of a civic association are eligible to become members of a specific union. Unlike a bank, where any person can walk in the door and open an account, a credit union requires each member to have a link to the common bond shared by all other members of that union. In some instances, the bond is very loosely interpreted, which allows many people on the fringes of a certain group to become members.

Credit unions originated in the 1800s in Europe and were first organized in the United States by about 1900. By 1942 there were 4,000 federal credit unions in existence, with more than one million members. Over the years they were regulated by a number of federal agencies. They are now regulated by a three-member board of the National Credit Union Administration.

By 1990, there were more than 16,000 credit unions in operation, serving 60 million Americans. Credit unions are insured by the National Credit Union Insurance Fund, a highly stable organization, which provides $100,000 worth of protection on all deposits.

Commercial Banks

By far the greatest number of people use commercial banks to transact financial business. The two essential characteristics of a commercial bank are that it offers checking accounts and that it makes commercial loans. With these two functions, it can be described as a full-service bank.

The commercial bank has stockholders and a board of directors who appoint the officers, including the chief executive officer, the chief administrative officer, and others. The officers act on behalf of the board and run the bank according to their wishes.

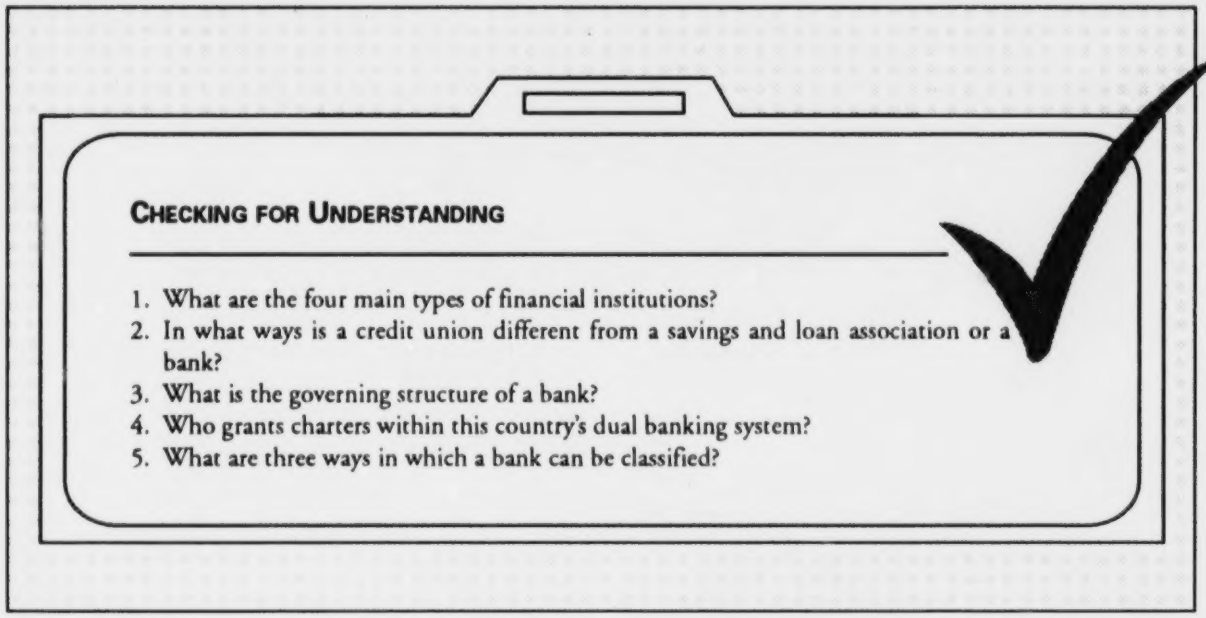
Banks can be classified in a number of ways, in addition to the two essential characteristics mentioned above. The following briefly describes the most important of these classifications.

Charter

Since all banks are corporations, they must be chartered. A **charter** is a document that sets down the rules by which a business operates. It also grants permission for its operation.

The United States is unique in that it has a **dual banking system**, which means that banks may be chartered by either the federal government or by the state government. National banks receive their charters from the Comptroller of the Currency in the U.S. Department of the Treasury. State banks receive their charters from the local state banking authority.

Full-service banks offer checking accounts and make commercial loans.



CHECKING FOR UNDERSTANDING

1. What are the four main types of financial institutions?
2. In what ways is a credit union different from a savings and loan association or a bank?
3. What is the governing structure of a bank?
4. Who grants charters within this country's dual banking system?
5. What are three ways in which a bank can be classified?

Many people working within the banking industry are proud of the dual nature of the system. They say that a stronger banking system results and that it provides more options for the consumer.

Federal Reserve Membership

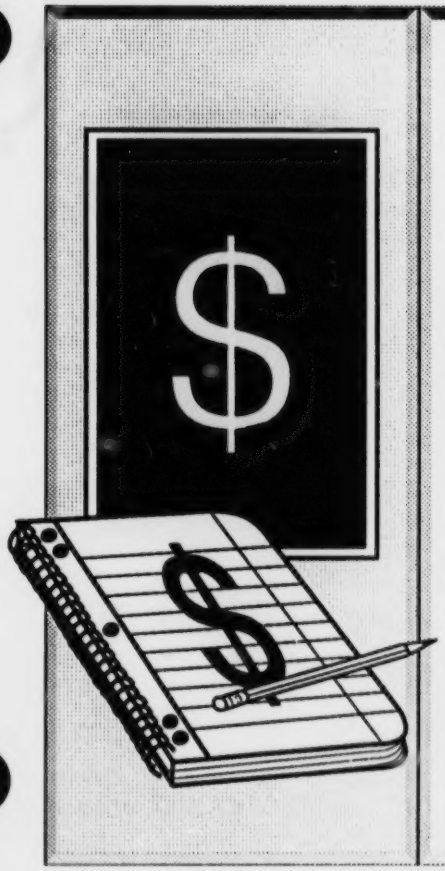
Banks may also be classified according to their decision to join or not to join the Federal Reserve System. All national banks must belong, but state banks have a choice. Some state banks prefer the greater freedom and extra privileges they have under state supervision. Even though some state banks do not become members, they may keep an account at the Fed in order to have access to its check-clearing operations as well as other services.

FDIC Membership

Another way banks can be classified is by their membership in the Federal Deposit Insurance Corporation. Just as in the Fed system, all national banks must be members, but state banks may join on an elective basis.

Summary

Different kinds of financial institutions serve the public in similar ways, meeting their needs and providing choices in the market. The four main kinds of institutions are savings banks, savings and loan associations, credit unions, and commercial banks. Today, there are more similarities than differences in these institutions, even though they began as the result of different needs.



4

Twentieth-Century Developments in the Banking Industry

Objectives: After completing this assignment, you will be able to—

- describe the events leading up to the stock market crash of 1929;
- discuss how the crash forced businesses into bankruptcy and raised the unemployment rate;
- list the four jobs of the Federal Deposit Insurance Corporation;
- describe interest-bearing accounts that emerged in the 1960s and after;
- explain how interest rates and loans contributed to the S&L crisis of the late 1980s and early 1990s; and
- discuss the two new federal agencies formed through the Financial Institutions Reform, Recovery, and Enforcement Act.

During the early banking years, a system evolved that established currency and placed restraints on financial institutions. Events that occurred from the late 1920s to the early 1990s shaped the industry even more and gave a direction that further defined banking. Today consumers reap the rewards of a more efficient system that emerged from the past.

The Stock Market Crash

In 1929 there were almost 25,000 commercial banks in existence. The economy, in a boom period, reflected the optimism and unrestrained growth enjoyed by most Americans. Banks were allowed to form in small communities with less than $6,000 in initial capital. Those with capital of less than $100,000 numbered in the thousands—approximately 72 percent of the total. Banks competed for customers and offered high interest rates on checking accounts to draw new accounts.

Depositors who wanted to play the stock market could borrow money from the bank, since 90 percent of the purchase of **stocks**, or certificates denoting partial ownership of a corporation, could be financed through bank loans or directly by brokers. This is called **margin credit**. Initially the practice worked well, but serious problems awaited the country. Investors thought the business boom would last forever and that stock market prices would only increase. When the stock market crashed in October 1929, the value of stock decreased by $14 billion in a single day. Banks lost huge sums of money, and many failed because of their poor investments and the small amount of capital reserves. The years ahead were bleak.

By the end of 1933, approximately 2,000 banks had failed, and customers had lost $7 billion in deposits. While many banks forced out of business were small ones in agricultural areas, some large institutions failed as well. In New York City, the failure of one large bank caused the loss of $200 million in deposits.

Bankers found themselves in an unending cycle. They had loaned

Following the stock market crash of 1929, rumors of bank failures caused panic withdrawals.

billions to investors who were unable to repay. The stock market shares used by borrowers as collateral for their loans were worth only a fraction of their former value. Businesses went into bankruptcy, fired their employees, and were unable to repay their loans. The unemployment rate reached 25 percent. Many depositors lost lifetime savings, because banks simply did not have enough money to give them when they came to withdraw their funds.

Legislation known as the Glass-Steagall Act was passed in 1933 to protect banks and consumers more efficiently. The act established the Federal Deposit Insurance Corporation (**FDIC**), which protects the funds of depositors of member banks.

The Federal Deposit Insurance Corporation

The FDIC guarantees insurance coverage of $100,000 on all deposits at member banks. Back in 1934, the initial maximum coverage was $2,500, but the amount has grown over the years.

The FDIC is authorized to set standards for member banks, examine banks to make sure they comply with the standards, take action to prevent troubled banks from failing, and pay depositors if a member bank fails. National banks must join the FDIC. State banks and savings and loan institutions may also hold membership in the FDIC.

Today about 98 percent of all eligible institutions are members of the FDIC. They are legally required to identify their membership through displays in their advertising and signs posted in their branches. Consumers most often see the FDIC letters very near the front door of a bank.

Each member bank pays an assessment based on its average annual total deposits. It's like annual dues, except that the amount is different for each bank. FDIC operations are directed in Washington, D.C., by a three-member board of governors. One is the comptroller of the currency. The other two are appointed by the president of the United States and approved by Congress.

Structures of Accounts

After the stock market crash, legislation was passed that forbade banks from paying interest on checking accounts. Interest was still allowed on bank savings accounts, but the amount was far less than a customer could get at a savings and loan. In the 1960s, a new type of account, the certificate of deposit, was offered. Originally issued in denominations of $100,000 or more, CDs are now available in amounts as small as $500. They pay higher interest rates than savings accounts. (See assignment 7 for

more information on CDs.) In the 1970s, **money market** funds were introduced by brokerage firms for people who did not have $100,000 to invest. They, too, paid higher interest rates than bank accounts. By 1980 banks were allowed to pay interest on checking accounts for the first time since the 1930s through the **negotiable order of withdrawal (NOW) account**.

After the NOW accounts allowed interest on more than savings deposits, other features were offered. In 1982 money market deposit accounts were introduced and became extremely popular. There was no minimum maturity, but depository institutions had the right to hold total withdrawals of account funds for seven days. The accounts, available to all depositors, required a $2,500 minimum balance. Check transactions were limited to three per month. A super NOW account then emerged, offering unlimited monthly transactions. The new interest-bearing accounts that allowed consumers check-writing privileges provided even more choices.

The Banking Industry in Crisis

In the late 1980s another crisis emerged among financial institutions. Savings and loan associations (S&Ls) traditionally supplied home mortgage credit in this country. A **mortgage** places ownership of the property with the lender until the loan amount is fully repaid by the customer. By June 30, 1990, S&Ls held more than $867 billion in mortgage debt, about 32 percent of all mortgages on one- to four-family homes. Since long-term mortgages were granted on a fixed-rate basis,

Words to Remember

FDIC—abbreviation for the Federal Deposit Insurance Corporation; created to protect the funds of depositors of member banks

FIRREA—abbreviation for Financial Institutions Reform, Recovery, and Enforcement Act; legislation passed by Congress in 1989 to consolidate troubled savings and loan associations into an expanded FDIC

junk bonds—securities of companies too young, too clouded by uncertainty regarding their future financial health, or too heavily in debt to get high ratings, but that, because of the high risk, usually pay high yields

margin credit—allowed 90 percent of the purchase price of stock to be financed through bank loans or directly by brokers

money market account—an account introduced by brokerage firms for customers who didn't have $100,000 to invest, yet paid higher interest rates than bank accounts

mortgage—a loan that places ownership of the property with the lender until the loan amount is fully repaid by the customer

NOW account—an account that pays interest on the cash on deposit in bank checking accounts

real estate—land and buildings

RTC—the Resolution Trust Corporation, a federal agency that deals with insolvent thrifts

stocks—certificates denoting partial ownership of a corporation

During the 1980s, thousands of savings and loan associations and hundreds of banks closed or were purchased by more profitable financial institutions.

Checking for Understanding

1. What were the events leading up to the stock market crash?
2. How did the crash force businesses into bankruptcy and raise the unemployment rate?
3. What are the four jobs of the Federal Deposit Insurance Corporation?
4. Name four types of interest-bearing accounts that emerged after 1960.
5. How did interest rates on savings accounts and on loans affect the savings and loan crisis that began in the late 1980s?
6. What two new federal agencies were created to handle the S&L and bank crisis? Discuss their roles.

the lender could not change interest rates to adapt to changing conditions in the money markets. The S&Ls found themselves in the difficult position of receiving interest income based on rates far lower than those they were paying on depositors' accounts. They paid high rates on new accounts to attract business. Then, to make up the difference, many invested in **junk bonds**. These are securities of companies too young, too clouded by uncertainty regarding their future financial health, or too heavily in debt to get high ratings from places that sell bonds. Because of the high risk, these bonds usually paid high yields. By the early 1990s, these bonds began to lose value. S&Ls started to lose money because of their weak loan portfolios.

Banks also began to report significant losses because of weaknesses in their loan portfolios. The problems were intensified because of declining conditions in both **real estate** (land and buildings) and oil and gas operations.

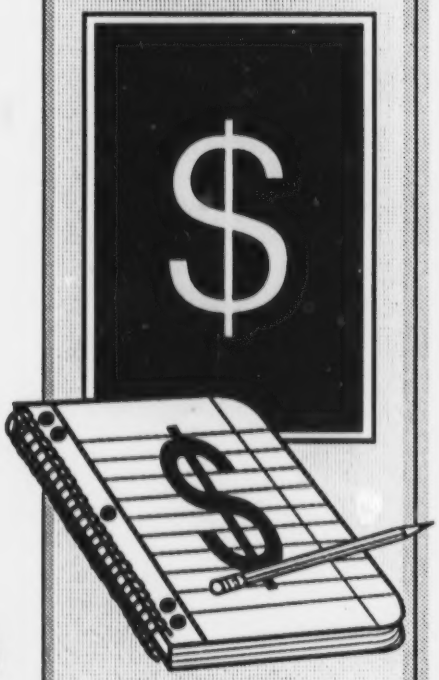
As a result, banks failed, as did S&Ls. During the 1980s, the number of savings banks and S&Ls fell from 5,172 to 3,420. In addition, by 1989, there were 206 FDIC-insured banks closed, the highest figure in FDIC history. Since the FDIC insured deposits, it had to pay customers when the S&Ls and banks did not have the money. Congress had to authorize more money to be placed in the FDIC coffers to meet the payments to consumers. The resulting bailout is expected to cost the country about $250 billion or more by the year 2000.

To avert total disaster Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act (**FIRREA**) in 1989. As a result, the S&Ls were consolidated into an expanded FDIC. Two new federal agencies, the Office of Thrift Supervision (to oversee and regulate all remaining thrifts) and the Resolution Trust Corporation, better known as the **RTC** (to deal with all insolvent thrifts and sell their assets—usually property), were formed. Certain restrictions were placed on the investments thrifts could make, and the FDIC was given additional powers to regulate the thrifts.

It took several years and much negotiation to stabilize the savings and loan and banking industries. Through new legislation and strict regulation, the financial system is now stronger and better able to handle contemporary problems.

Summary

The U.S. financial system established a stable currency and placed restraints on financial institutions. However, a number of events occurred from the late 1920s to the early 1990s that gave the industry a direction and further defined banking. As the result of this gradual shaping process, today's banking consumers reap the rewards of a more efficient financial system.



5

A Checkless Society

Objectives: After completing this assignment, you will be able to—

- discuss the changing role of cash and checks in our society;
- describe the magnitude of check processing in the 1990s;
- tell how the Social Security Administration distributes payments through electronic funds transfer systems (EFTS);
- explain bill paying by telephone or computer;
- describe a supermarket debit; and
- discuss the uses of the "smart card" concept.

There will always be a need for some amount of currency in our society. In some instances, cash will be the only accepted form of exchange. Checks may also be necessary for certain transactions. The role, however, of these two forms of payment is undergoing a transformation, and several approaches are emerging as important methods of exchange. As they gain momentum, the number of checks people write is expected to decrease along with the amount of cash they carry. In the future, checks and cash may not top the list as the most important methods of payment.

Electronic Funds Transfers

Each day in the 1990s, about 100 million checks are written, and as the number grows, so do the personnel, equipment, and technology needed at financial institutions to process them. Even though great strides have been made in technology, the cost to banks alone, not including savings and loans or credit unions, is estimated at more than $20 billion annually.

A call for a more cost-effective way to serve customers was sounded, and the response was the **electronic funds transfer systems (EFTS)**. Through the use of computers, paperless bookkeeping entries can **debit**, or transfer funds from, one account and **credit**, or transfer funds into, another. Speed, accuracy, and cost-cutting result. When EFTS was first introduced, much was said about a checkless, or **plastic**, society that would replace the existing system. Check volume has indicated, however, that such expectations are unrealistic. The function of EFTS has been to reduce, not completely remove, check cashing from our society.

Several applications of EFTS show how simply the system operates. For example, the Social Security Administration has been successful in convincing recipients to allow their monthly payments to be deposited directly into their bank accounts. In the past, these checks were mailed to the homes of recipients. The checks always arrived on the same day of the month. In some locations, checks were stolen from the mailboxes before the recipient was able to collect the mail, because

A supermarket debit automatically transfers the appropriate amount from the customer's account to the supermarket.

someone studied the dates the checks were received and got there first. With the electronic funds transfer, no mail is involved, and costs are cut.

Some employers use electronic transfers on payday. Rather than printing out paychecks to employees, the employer deposits the money directly into the requested bank account of the employees. The process is fast, efficient, and economical.

Some financial institutions offer a service whereby a customer can pay bills by telephone or by a computer. By keying in a prearranged code followed by the amount, the customer identifies him- or herself, the bill he or she wishes to pay, and the amount. Funds are transferred from the customer's account to the recipient.

Growing in popularity is the **supermarket debit**. A plastic card is presented to the checkout clerk at the time payment is due. The customer "swipes" the card through a reader and then enters an identification code and the amount of the purchase. The funds are immediately transferred to the supermarket from the purchaser's bank account, completing the transaction. This differs from a credit card transaction, such as a Visa, MasterCard, or American Express purchase, in that no bill is mailed at the end of the month. The supermarket process is a simple accessing of the customer's bank account and transferring of funds at the point of purchase.

Automatic Teller Machines

Many banks, savings and loan associations, and credit unions offer **automatic teller machines (ATMs)** as a quick, alternative form of banking. A plastic card with a preselected **personal identification number (PIN)**, or code that identifies the authorized user, can be inserted into the machine to handle a variety of functions.

The most common use of ATMs is to withdraw money from an account. The key benefit is that an account can be accessed without having to write a check or visit the bank. ATMs offer many more services, such as transferring money from one account to another, determining an account's balance, and making deposits.

Smart Cards

Smart cards, as they are named by the banking industry, expand the ATM concept. These cards, which look like conventional bank cards, contain microprocessor and memory chips imbedded within the plastic. They can hold the equivalent of three typewritten pages of information. The tiny computer allows users to transfer funds from a bank onto the microchip in the card. Merchants accepting the cards deduct from those funds, eliminating the need for credit to be verified electronically.

The smart card is one step closer to a system in which less cash and fewer checks are needed. The concept is fairly simple in practice. The cardholder decides he or she needs to go shopping for a variety of items. The first stop is the ATM, where the cardholder inserts the smart card and takes $200 out of his or her bank account. That **withdrawal**, or transfer of funds from a bank account, is placed on the

smart card. The card's computer chip registers the $200 carried in plastic. The customer goes first to a department store in the mall and purchases $75 in clothing and shoes. After the salesperson enters the card into the department store terminal, that amount is subtracted from the total. When the shopper gets the card back, there is only $125 remaining. As the customer goes through the day, to the gas station, the dentist's office, or the supermarket, the balance dwindles.

Widespread test marketing of smart cards was taking place in the early 1990s. Their use will likely change the nature of consumer banking in the future.

Summary

Although there will always be a need for some amount of currency and checks in our society, the role of these two forms of payment is undergoing a transformation. As a result, the number of checks people write is expected to continue to decrease along with the amount of cash people carry. Innovations in computer technology, such as electronic funds transfer systems, supermarket debits, automatic teller machines, and smart cards, will enable banking to move closer to a system in which less cash and fewer checks are necessary.

Words to Remember

automatic teller machine (ATM)—a machine, requiring the use of a plastic card with a preselected personal identification number (PIN), that can handle a variety of banking functions

credit—to transfer funds into a customer's account

debit—to transfer funds from a customer's account

electronic funds transfer systems (EFTS)—systems by which paperless bookkeeping entries debit one account and credit another through the use of computers

personal identification number (PIN)—a preselected code that identifies the authorized user

plastic—a checkless payment method that uses plastic cards

smart card—looks like a conventional bank card but contains a microprocessor and memory chips embedded within the plastic, which allows the user to transfer funds from a bank onto the microchip in the card, which merchants accepting the cards can deduct

supermarket debit—using a plastic card issued by the financial institution to access the customer's bank account and transfer funds to the supermarket at the point of purchase

withdrawal—the transfer of funds from a bank account

Automatic teller machines allow customers to withdraw money without writing a check or visiting the bank.

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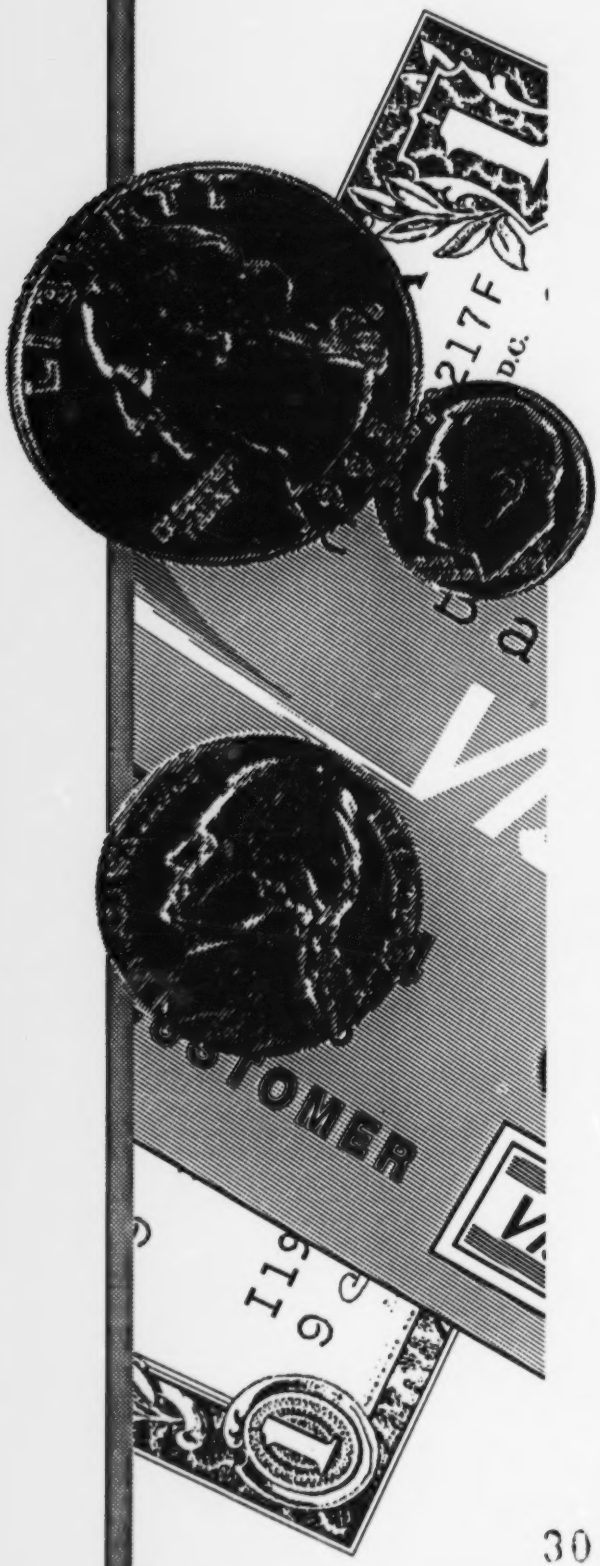
Checking for Understanding

1. How is the role of writing checks and carrying cash changing?
2. What is the magnitude of check cashing in our society, and what is the cost?
3. Through the use of an electronic funds transfer system, how does the Social Security Administration distribute its monthly payments?
4. How does bill paying by telephone or computer work?
5. How does a supermarket debit differ from a credit card purchase?
6. Create a situation in which you have a smart card, and explain its use for your purchases.



PART II

Gaining Product Knowledge

6

Current Trends and the Future of Financial Institutions

Objectives: After completing this assignment, you will be able to—

- describe the movement that is changing banks, thrifts, and credit unions to full-service financial organizations;
- identify the drawbacks to greater regulation of the banking industry;
- describe the tasks that will be performed by a three-way link of telephone, computer, and TV;
- explain how new technology will assist older customers who shy away from unfamiliar approaches; and
- list three changes that will occur as financial institutions compete more for customers.

Change is a constant in our society, and the trends forecasted for the future suggest a financial marketplace moving and shifting with the needs of the people. Change permeates every aspect of society, including the types of jobs people will have.

Students today are told to expect to have nine different jobs in their lifetimes. Of those, three haven't even been invented yet. Therefore, education and **reeducation**, or additional training required to upgrade job skills, are becoming lifetime concepts.

Computers and the way they are used will continue to change. Almost all jobs will require computer experience, and while the new employee may not know a company's particular program, he or she must be familiar with basic computer functions as well as some of the more common programs.

Future trends involve five areas of operation:

- Industry concept
- Regulation
- Technology
- Markets
- Competition

Industry Concept

The financial industry is moving toward a consolidation of areas. Banks are becoming **full-service financial organizations** as they begin to own brokerage firms, mutual funds, savings and loan associations, and computer services such as bill paying operations. That trend is expected to continue and even broaden, creating an industry in the future that offers much more than checking accounts and savings accounts.

Patterns of geographic expansion are underway across the country. No longer will regional banks dominate, and the tendency for banks in one part of the country to open banks in distant states will continue. Some banks in a given state will be purchased by the major institution in that state so that expansion can advance. It is unlikely, however, that there will be only a few large banks

Banking is becoming an integrated financial services industry in which many financially related companies are owned by the same parent company.

in the future. Because of the varying needs of customers, many small banks will still operate.

Regulation

Because of the problems experienced by savings and loans and banks in the 1980s, the move toward **deregulation**, a loosening of governmental controls, came to a halt. It was replaced by stricter regulations enacted by Congress. Many of those new regulations are setting the stage for changes in the financial institutions of the future. Consumer protection and community development are two significant areas of change. Financial institutions must present to customers detailed information on such areas of consumer protection as truth in lending and a person's rights in opening any particular account.

The implementation of federal regulations, such as the Community Reinvestment Act (CRA) of 1977, has required financial institutions to attempt to meet the financial services needs of people with moderate and low incomes. CRA requires banks to meet both the mortgage and the business credit needs of the communities in which their depositors live and work. Banks and financial institutions may not *redline*, or exclude certain geographic areas from consideration for mortgages without regard for the credit worthiness of the borrower or the value of the property. Further, bank examiners are required to evaluate the financial institution's record in meeting community credit needs. The ways in which such regulations are carried out will in part change the way banks and thrifts do business.

Many of the strict laws to which financial institutions must adhere do not extend to other types of companies. Some insurance companies and brokerage firms offer many of the features that banks do. For example, customers can actually open checking accounts at a few of the larger insurance and brokerage firms. Foreign banks can also enter the United States and open up banks anywhere they please while operating under their own country's restrictions rather than those of the United States. The trend will be to create more realistic regulation in the future that will allow banks and thrifts to compete with corporations offering the same services.

Technology

Customers have greater expectations of banks than they did a few years ago, and those expectations will fuel the changes that lie ahead. New technology, developed to respond to customers' expectations, will emerge primarily in the area of computer operations.

In the mid-1970s, most people had never even seen an automatic teller machine. Ten years later, most people were using them. By the 1990s, the tasks that an ATM could do had grown, and the expectations of those using the machines had increased in proportion.

Changes in computer technology will provide customers with faster information service. They will no longer need to call one phone num-

A three-way link will allow consumers to carry out financial business at home.

ber to check on their account balance and another number for their loan balance. Both will be handled through one call. At many banks, this is already the case.

Branches of banks, thrifts, and credit unions will be customer-friendly, even more so than at present. A person who has a checking account and is applying for a loan will not need to fill out numerous forms. With the stroke of a key on a keyboard, an employee will retrieve the necessary information about a person. That information will reside in the computer's memory and can be applied to multiple requests by the customer.

Three-way links among telephones, computers, and televisions will strengthen. Just as ATM machines provided ease of operations, so will the linking of the three mediums in the future. A person in his or her home who wants a loan will be able to discuss the prospect with a loan officer at a financial institution. This will be done through the use of the customer's television and telephone along with the computer. Thus, a conference between the applicant and officer can occur electronically, from almost any distance. After that, the customer can use a remote control to complete other banking tasks before turning to something else.

For the employee of a financial institution, knowledge of computers is a necessity. Almost every position in banking that offers a stairway to a better job requires computer experience. No longer can people be hired without such knowledge. While an employer may train a person to work a particular program, the employee must have a background in computer functions on which to base new knowledge.

Markets

In the 1980s customers became comfortable with the new ways in which they could access their banks, such as with ATMs, telephones, and drive-through windows. New technology appealed to the young. Less and less often did people visit the inside lobby of a bank. As a result, there is less loyalty to one bank. The trend is for a person to use more than one financial institution, even though a single bank, thrift, or credit union could handle all of the customer's needs.

Among the older customers who shied away from ATMs, different markets are opening up. For example, since certificates of deposit in the early 1990s did not earn the interest consumers wanted, older

Words to Remember

bilingual—able to speak more than one language fluently
deregulation—a loosening of governmental controls
full-service financial organization—one that offers checking accounts, savings accounts, brokerage services, mutual funds, and computer services to its customers
mutual fund—a group of stocks offered by an investment company to sell in one package
reeducation—additional training required to upgrade job skills
three-way link—combining the capabilities of the telephone, computer, and television to complete banking tasks

customers began to invest in the stock market and in **mutual funds**. A mutual fund is a group of stocks offered by an investment company as one package. Older customers are increasingly using the services of banks to make these purchases rather than to invest in CDs.

Because of legislation, new markets will open to serve people with low and moderate incomes as well as very small and start-up businesses. The kinds of accounts that meet their needs may not be the same as those used by more affluent customers.

Competition

Banks, thrifts, and credit unions in the past have been thought of as passive organizations. They would run an ad in the local newspaper offering some new service and then sit back and wait for customers to respond. That practice is changing. Because of competition, financial institutions are expected to become more aggressive. For instance, since the moderate- and low-income customers they are required to serve will need services keyed to their own circumstances, all types of banks will compete for their dollars. Branch banks are beginning to appear in economically disadvantaged neighborhoods. **Bilingual** employees, those who speak another language in addition to English, will be in demand.

Financial institutions in the future may opt to invest more in sales training and incentives to employees for outstanding sales performance. Such competitive practices are routine in other industries, but they have not been in banks until recently. The differences among individual banks, credit unions, and thrifts are blurred—practically nonexistent—but competition is becoming sharp.

Summary

The financial marketplace of the future will change according to the needs of consumers. Because of the capabilities of computers, all employees of financial institutions must be familiar with basic computer functions and some of the more common programs. In the future, financial institutions will consolidate to look more like each other and will have to respond to strict regulation. Changes in computer technology will provide customers with faster service. Financial institutions need to determine the consumer markets they want to develop, realizing that aggressive competition will be necessary.

Checking for Understanding

1. How does a full-service financial organization differ from a traditional bank?
2. List at least two changes that will occur as the result of more regulation of the banking industry.
3. How will three-way links aid customers with their finances in the future?
4. What financial services have older customers begun to find the most appealing?
5. How will competition change the way financial institutions do business?

7

Banking Operations

Objectives: After completing this assignment, you will be able to—

- list the four major functions a financial institution provides its customers;
- define *demand deposit;*
- explain the difference between time deposits and savings accounts;
- define *certificate of deposit;*
- describe two types of retirement accounts; and
- explain how savings can occur with a club account.

Today's financial institutions might be called "supermarkets" because they offer customers a wide range of services to meet their monetary needs. They perform four major functions for their customers:

- Deposit (receiving)
- Paying
- Lending
- Trust

These four functions are offered in both the personal and the commercial banking divisions. Although they are not the only functions offered by a bank, they are the main ones. Along with each of these functions, a number of services are also offered.

The Deposit Function

The deposit function is handled by the paying and receiving teller. Most people are familiar with the deposit function as well as the work of the teller. This is the original function from which banking evolved. It involves the holding of a customer's money for safekeeping, both as time (or savings) deposits and as demand deposits, both of which will be explained later in this assignment.

The Paying Function

The paying function allows customers to withdraw all or a portion of the funds they have in their time or demand accounts. This function is also handled by the paying and receiving teller.

The Lending Function

The lending function offers both individual and corporate customers the option of borrowing money. Money is loaned for a number of different needs, provided the applicant meets the bank's set criteria.

The Trust Function

The trust function provides many services, and the scope continues to expand. The major services offered to individual consumers include the setting up of **guardianships** of funds for minors or for other entities. This activity is usually associ-

Many financial institutions are like supermarkets in that they offer their customers a wide variety of services.

ated with the term *trust*, because the guardianship is designed to hold money until such an age as the child can be trusted to make good decisions for himself or herself.

Among the other services performed by the trust division are investment planning and purchasing, financial counseling and estate planning, and the administration of such plans.

In this and later assignments, a closer look will be taken at each function. The deposit and paying functions are closely related, and since both are handled by the paying and receiving teller, they will be discussed together.

Deposit Accounts

There are two major types of deposit accounts available to both commercial and personal banking customers. These are time deposits and demand deposits. A more common term for these are checking and savings accounts, and they can be found in a variety that sometimes boggles the mind.

Checking Accounts

Demand deposit accounts are the first major type of deposits. Commonly called checking accounts, they qualify for the more accurate term *demand deposit* because the funds held in them must be released to the customer on demand. These funds are held by the bank for safekeeping and generally are used by depositors to pay for their daily needs and ongoing expenses.

Checking accounts may be owned by any person or group, such as an individual; two or more persons jointly; one person acting for another, such as a minor or an incompetent person; all types of businesses; and clubs and associations, to name a few.

Time or Savings Accounts

How do savings accounts differ from time deposits? In the past, the differences were simple to determine. The customer who opened a savings account did not establish a maturity date, and deposits and withdrawals could be made often over a period of years. In contrast, a **time deposit** had to have a specific maturity date—at least seven days from the date of deposit. If a time deposit was withdrawn before maturity, there was a penalty for **early withdrawal**.

Today, the distinctions between savings accounts and time deposits have become less clear-cut, just as the traditional separations between commercial banks and thrifts have become blurred.

Passbook accounts. Savings accounts are part of the retail side of banking. The passbook account was the first type offered by most banks years ago. It featured a small book in which each customer's deposits and withdrawals were posted in the teller's handwriting. This was the only way customers could keep an accurate record of their accounts. No machines were available for posting, so there were no mechanical records.

When posting machines became common in most banks and were used to prepare their records, it was easier to send the customer a copy of this record. This copy is known as a **statement**. With such technology and its improvements over the years, passbook savings became obsolete. In general, passbooks used today by a financial institution are offered merely as a courtesy to the saver.

Certificates of deposit. There are a wide range of time deposits. One type in particular, **certificates of deposit**, or CDs, are very popular. The certificate is an official receipt issued by a bank stating that a certain sum of money has been deposited for a fixed length of time at a certain rate of interest. CDs are offered in many amounts, and the larger ones of $100,000 or more have become a key factor in banks' efforts to attract large, stable time deposits.

Some CDs do not have fixed interest rates but change according to the fluctuations of the economy. These are called variable-rate CDs, and the maturities range from seven days to several years.

Retirement accounts. Two other time deposit choices are the IRA and Keogh account. Both are designed to aid in retirement planning.

For self-employed individuals, such as doctors, lawyers, and consultants, **Keogh accounts** offer a method to establish retirement accounts. **Individual retirement accounts**, known as **IRAs**, were created for companies' workers and their spouses. Both have become very important types of deposit

By enrolling in a vacation club and depositing a small amount each payday, a bank customer can soon have enough for a trip.

Words to Remember

certificate of deposit (CD)—an official bank receipt stating that a sum of money has been deposited for a fixed length of time at a certain rate of interest

club account—an account established to save for a special objective

demand deposit—an account that has funds held by the bank for safekeeping that must be released to the customer when desired

early withdrawal—penalty paid for taking funds from a time deposit before maturity

guardianship—a fund established for minors that is held until the child reaches a more financially responsible age

individual retirement account (IRA)—a retirement account designed for workers employed by companies

Keogh account—a retirement account for self-employed individuals that allows withdrawals only after the holder reaches age 59-1/2

lifeline account—an account designed to offer inexpensive banking services to young people and senior citizens

statement—a record the financial institution provides to the customer indicating deposits, withdrawals, and balance

time deposit—an account that has a specific maturity date and a penalty for early withdrawals

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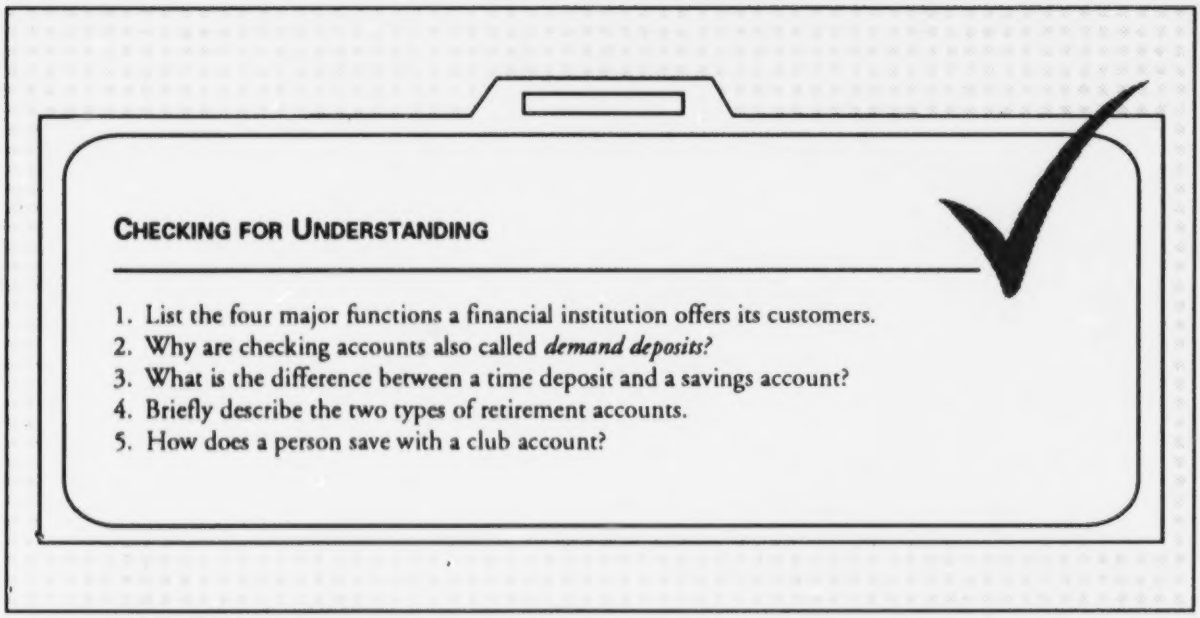


CHECKING FOR UNDERSTANDING

1. List the four major functions a financial institution offers its customers.
2. Why are checking accounts also called *demand deposits?*
3. What is the difference between a time deposit and a savings account?
4. Briefly describe the two types of retirement accounts.
5. How does a person save with a club account?

resources for banks, brokerage firms, insurance companies, and thrifts.

The self-employed may contribute a certain percentage of their net earnings to a Keogh account. Withdrawals are only allowed after they reach age 59-1/2. IRAs are deductible for those earning less than $25,000 annually and are a good instrument for investing toward retirement.

Club accounts. Another type of savings is the **club account**, which customers establish to save for a special objective. Examples of this include the Christmas or Hanukkah club account and the vacation club. Customers deposit a certain amount each week or month for a set period of time until they have saved enough for their intended expense.

A person with a club account usually agrees to make regular deposits. At the end of the agreed-upon period, the bank mails a check or gives the person credit in another account for the amount saved.

Lifeline accounts. A lifeline account addresses two groups in society—youth and senior citizens. It encourages young people to save and senior citizens or others with small incomes to receive bank services by offering inexpensive banking. **Lifeline accounts** are basic accounts on which standard service charges and fees are relinquished. This gives them limited access to financial services.

Many banks also offer special accounts to senior citizens who can maintain large balances and want to tie together several bank services. For example, a customer over the age of fifty might choose a combination of free checking, lower interest rates on loans, overdraft protection, a free safe-deposit box, and no fee on credit cards, as long as they maintain a certain balance.

Summary

By combining deposit, paying, lending, and trust functions, today's financial institutions offer their customers many services. Deposit accounts allow customers to use a variety of savings accounts to earn interest, while demand accounts allow customers instant access through their checking accounts.

8

Deposit and Paying Functions

Objectives: After completing this assignment, you will be able to—

- list the elements of a deposit receipt;
- identify the three categories of money on a deposit slip;
- describe the three ways a customer may take money out of an account;
- explain why financial institutions cash checks, even though the risks are great; and
- describe the safeguards and pitfalls when withdrawing from an automatic teller machine.

Two of the most common services a financial institution offers are accepting money a customer wants to deposit into an account and paying out money the person wishes to take out of the account, which is called a **withdrawal**. These are the basic deposit and paying functions.

The Deposit Function

The deposit function is first handled by the paying and receiving teller, who must perform certain specific steps. It starts with the customer, who fills out a **deposit slip**. Regardless of whether the person wants to place money in a checking or a savings account, a deposit slip is necessary.

Shortly after a person opens an account, he or she is mailed preprinted deposit slips and checks. In the upper left corner of the deposit slip appear the person's name and other information if desired, such as address, city, and phone number. Centered at the bottom is the checking or savings account code number. The customer adds the current date and the total amount of money to be deposited.

On the slip, the depositor is asked to specify how much of the money is in the form of **currency**, or paper money, and in coins, and finally in checks. All three areas are added together, and the total amount is entered at the bottom of the slip.

When the teller accepts the deposit, the amounts are checked for accuracy, and a receipt for the customer is printed. It shows the date, the amount, and the number of the account into which the money is being deposited. The customer receives the receipt, and the amount of the deposit is entered into the bank's records.

Another way to deposit money is through an automatic teller machine (ATM). Even though a teller is not directly involved in such a transaction, a deposit slip must be completed, and a receipt is received by the customer.

A third way to deposit money is through an Electronic Funds

The personal qualities of honesty and accuracy are important, as the teller must account for the money that is in the cash drawer at the end of the day.

Transfer System (EFTS), which uses computers for paperless debits and credits. Customers can use the **direct deposit** service to have their salary automatically transferred from their employer's account into their own checking or savings account (or split between the two). Through direct deposit of income such as Social Security checks, retirement and pension checks, and stock dividends, the customer benefits by knowing that the funds are available on a certain day of the month, not having to make a trip to make the deposit, and reducing the chances of the check being lost or stolen.

Customers can also use the telephone to transfer funds from one account to another—a second way in which EFTS can be used to make deposits. Because the service fee charged by the financial institution is usually less than the cost of postage, many customers take advantage of this convenient service.

The Paying Function

When a customer wants to withdraw money rather than deposit it into an account, the bank teller must follow specific steps. There are three ways in which a customer can withdraw money:

- Complete a **withdrawal slip**
- Write a check
- Use an ATM machine

Each way has its own methods of verifying the identity of the person asking for the money and his or her account status.

Withdrawal Slips

Withdrawal slips may be used for either checking or savings accounts. Some slips are preprinted for quick use by customers. Most bank lobbies have stacks of deposit and withdrawal slips at a customer work area.

The slips usually require that the customer print his or her name and full address, account number, and amount to be withdrawn (both written out and in figures) and write his or her signature. It is a fill-in-the-blank process. In addition, some banks may require that a customer present a driver's license or other identification at the time of withdrawal.

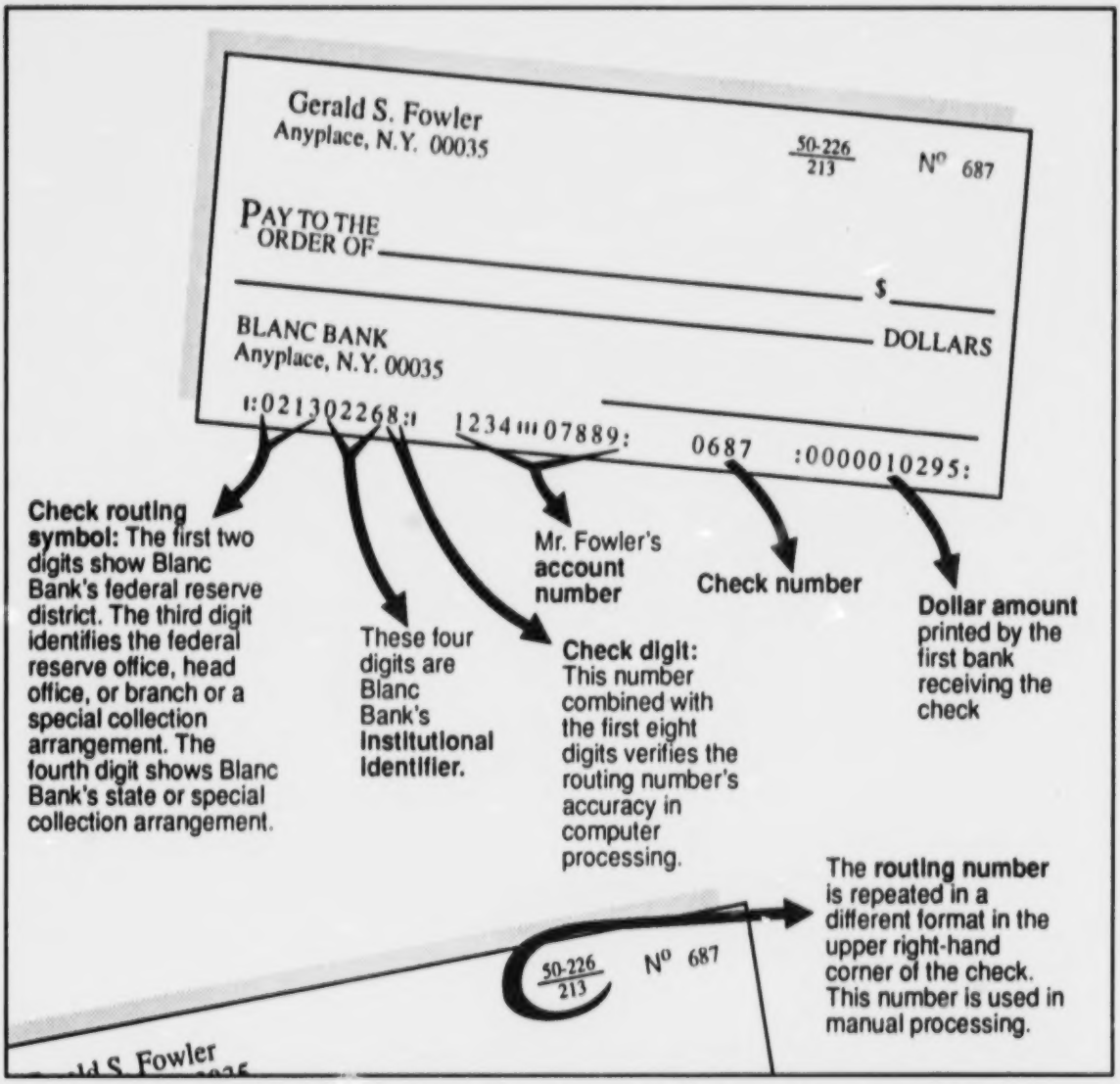
Check Writing

Since many savings accounts and all checking accounts have check-writing privileges, a check may be presented instead of a withdrawal slip. The writing of a check is the most common way of taking money out of an account.

The method by which a teller verifies the identity of the customer varies from one financial institution to another. Basically, tellers must be satisfied that people are actually who they say they are. Then the person's account is checked to make sure there is enough money in it to cover the amount of the withdrawal. If everything is in order, the customer is paid the amount requested.

On any business day at a financial institution, large volumes of payroll and dividend checks are presented. So are tax refund, welfare, and social security checks, as well as simple personal checks. They are submitted to the teller to be cashed, the term used when the checks are drawn on a bank other than the one where the check is presented.

Tellers and banks assume significant risks in giving **legal tender**, or


Gerald S. Fowler
Anyplace, N.Y. 00035
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213
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PAY TO THE ORDER OF
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BLANC BANK
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:021302268:
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Check routing symbol: The first two digits show Blanc Bank's federal reserve district. The third digit identifies the federal reserve office, head office, or branch or a special collection arrangement. The fourth digit shows Blanc Bank's state or special collection arrangement.
These four digits are Blanc Bank's institutional identifier.
Mr. Fowler's account number
Check digit: This number combined with the first eight digits verifies the routing number's accuracy in computer processing.
Check number
Dollar amount printed by the first bank receiving the check
The routing number is repeated in a different format in the upper right-hand corner of the check. This number is used in manual processing.
50-226
213
No 687

Once the bank cashes a check, a high-speed, automated process begins, using magnetic ink coding and technology that can sort and route up to 100,000 checks an hour.

Words to Remember

currency—paper money, such as dollar bills

deposit slip—a preprinted or blank form used by the customer to record—and by the financial institution to process—a deposit

direct deposit—the process of regularly and automatically transferring funds from the account of an employer or other payer to the account of an employee or other payee

legal tender—the kinds of money that can legally be used to pay debts and that must be accepted as payment when offered

withdrawal slip—a preprinted or blank form used by the customer to record—and by the financial institution to process—a withdrawal

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Checking for Understanding

1. List the three kinds of information that should be printed on a deposit receipt.
2. How is money separated on a deposit slip?
3. What are the three ways in which a customer may take money out of an account?
4. Why do financial institutions cash checks, even though the risks are great?
5. What are the safeguards and pitfalls of withdrawing money from an ATM?

usable money, in exchange for checks drawn on other banks. Things could go wrong. The teller has no way of knowing whether the account on which the check is drawn is genuine and authorized. It may have a stop payment order on it. Or the balance may not cover the amount of the check. Because of this, banks cash checks only when the teller is satisfied that all conditions of the check-writing process have been met.

With all the risks, why do financial institutions cash checks at all? Because they support the concept of customer service. The risks are assumed because the banks have another big reason for providing the service—competition for the customer and his or her money.

ATM Withdrawals

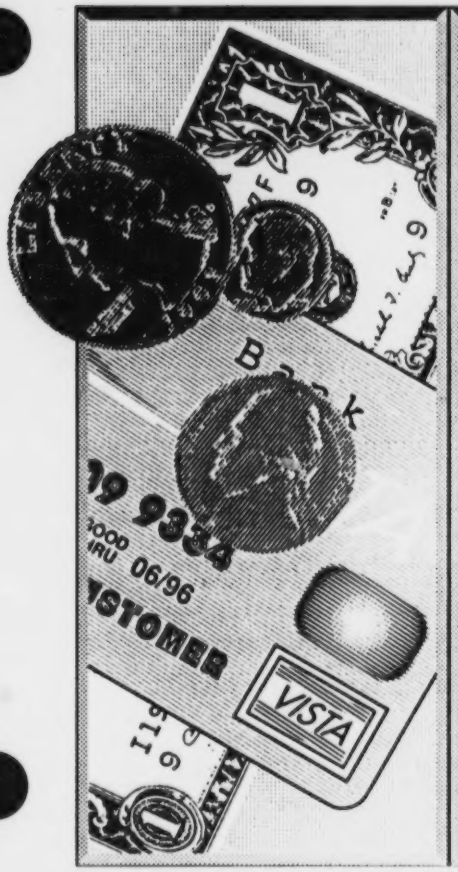
The third way in which a person may withdraw money is through an automatic teller machine. In this case, the safeguards are different, but they are still in place. Two items are needed to operate an ATM: a card and a personal identification number (PIN). The customer must have both of these in order to access the machine. Without them, no transaction may be made.

When a card is inserted in an ATM, several things happen. First, if the card is reported stolen, the machine keeps the card. Second, if the card user does not correctly enter the PIN, and if several unsuccessful tries are made to hit it right, the card may be kept by the machine. Finally, if the card is inserted and the correct PIN is entered, the amount the customer wants to withdraw is then checked against his or her account. Here, again, the customer can run into trouble if there's not enough money to cover the amount requested.

If, however, the card is presented, the PIN is accurate, and the amount to be withdrawn is within the limits of the account balance, the money will be dispensed as requested.

Summary

When customers want to make deposits or withdraw money from their accounts, they use the deposit and paying functions of a financial institution. The paying and receiving teller is responsible for accepting deposits, processing withdrawals, and cashing checks. Customers can use an ATM to deposit or withdraw money from checking or savings accounts.



9

The Lending Function

Objectives: After completing this assignment, you will be able to—

- explain how money is created through the lending function;
- list the three areas of lending that are regulated by law;
- identify the four separate departments or areas that play a major part in the loan process;
- name the two main types of loans;
- explain the differences among the three types of secured notes;
- list the four major classes of loans made by most banks;
- state the purpose of consumer credit loans, real estate loans, and interbank loans; and
- list the factors that affect the setting of interest rates.

Lending money is one of the major ways in which financial institutions earn money. Since banks and thrifts have stockholders who are entitled to a return on their investments, it is the institution's job to make a profit. Charging interest on loans is the main way banks earn their profits.

More money is borrowed each year from banks than from any other source. Banks have not become the largest lenders simply because they are required to loan money. They do so because they can make large sums of money by charging interest on the loans. Typically, two-thirds of a bank's yearly earnings result from interest on loans. In 1990 the total amount of money owed on loans was $2.1 trillion.

Loans not only produce earnings for the bank; they also create money for the economy. How does this happen? Essentially, the bank generates a cycle of funds. For example, suppose a bank is required by the Fed to hold 20 percent of its checking account deposits in reserve. Also suppose that all lent money is deposited into checking accounts at the same bank. New funds would be created as follows: A $1,000 cash deposit is made in the bank by A. After the required reserve of 20 percent is deducted, the bank has $800 available to lend B. It does so. From that money the bank can now lend $640 to C. Continuing this same process, the bank theoretically could lend $512 to D and $409 to E. From the original cash deposit of $1,000, a total of $2,361 in new funds is created through this succession of bank loans.

As long as they observe the reserve requirements and depositors' withdrawals, banks can keep on building their deposits by increasing their loans.

The Lending Organization

The loan function of a commercial bank is usually organized in four separate departments or areas—the board of directors, loan officers, credit department, and note department.

The *board of directors* outlines the general lending policies of the specific institution. These policies cover the types of loans they wish to offer

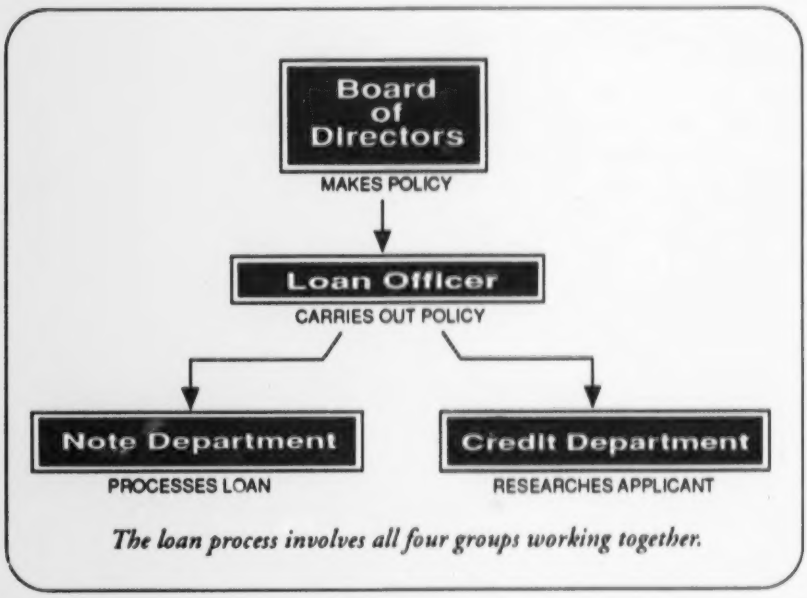
that will meet their community's needs. The objectives of the bank or thrift's profit plans are considered. A credit union board would take into account its own needs and policies but would not consider the profit aspects, since it is a nonprofit institution. Most banks try to keep their group of loans, called a loan **portfolio**, well balanced.

Part of the lending policy is dictated by law. Banking is one of the most regulated industries in the world. Laws specify the maximum amount of money that may be loaned to any one borrower. Laws also control the maximum amount of interest that may be charged. In addition, restrictions are placed on the size and maturity of certain types of loans, such as in real estate.

Once policies are set by the board of directors, the other three commercial bank areas that deal with lending handle the actual process. *Loan officers* are employees who are responsible for interviewing applicants and making sure the applications for loans are properly completed. They also make the final decision on whether or not the loan will be granted. Sometimes, when the loan request is for a very large amount or if special considerations exist, a loan committee decides the merits of the applicant. The decision is based on information gathered by the other two areas: the credit and note departments.

The *credit department* is the one that provides primary support to the loan officer. The department must research the financial and credit history of the loan applicant. Often persons in the department, called credit analysts, are asked to review fully the financial background of an applicant.

Information is gathered from credit association reports, retail store credit records, and other financial institutions. It is presented in report form to the loan officer, who decides whether to grant or deny the loan based on the report and the loan interview. Credit analysts can make suggestions to the lending officer in their reports.



The loan process involves all four groups working together.

In addition to providing a financial history, the applicant must be of legal age. Then the "four Cs" of credit are considered. The applicant's *character* is judged by his or her reputation in the community. *Capacity* refers to the person's ability to repay the loan based on income and other outstanding debts. The third C, *capital*, refers to the total amount of cash and liquid assets the applicant has available. *Collateral* includes the financial and/or material resources, such as a car or life insurance policy, that the applicant has and can pledge to the financial institution to guarantee the loan.

The *note department* deals chiefly with the paperwork involved in processing a loan after it has been granted. This department is often called the loan operations department. Here the borrower receives the check for funds that have been granted. The payment may be processed from the loan recipient's bank account. Note department personnel also keep records of the loan payments, and they hold the property, title, or other papers used to represent the assets pledged to secure the loan.

The note department of any financial institution is highly computerized. People who work in this department must be able to interact easily with a computer, since it is used for such jobs as entering the payment a person has made on his or her loan, calling up information on the status of a loan, and gaining access to any other aspect of the loan.

The interest on a loan is calculated and collected by the note department on an accrual basis. That means that interest builds over

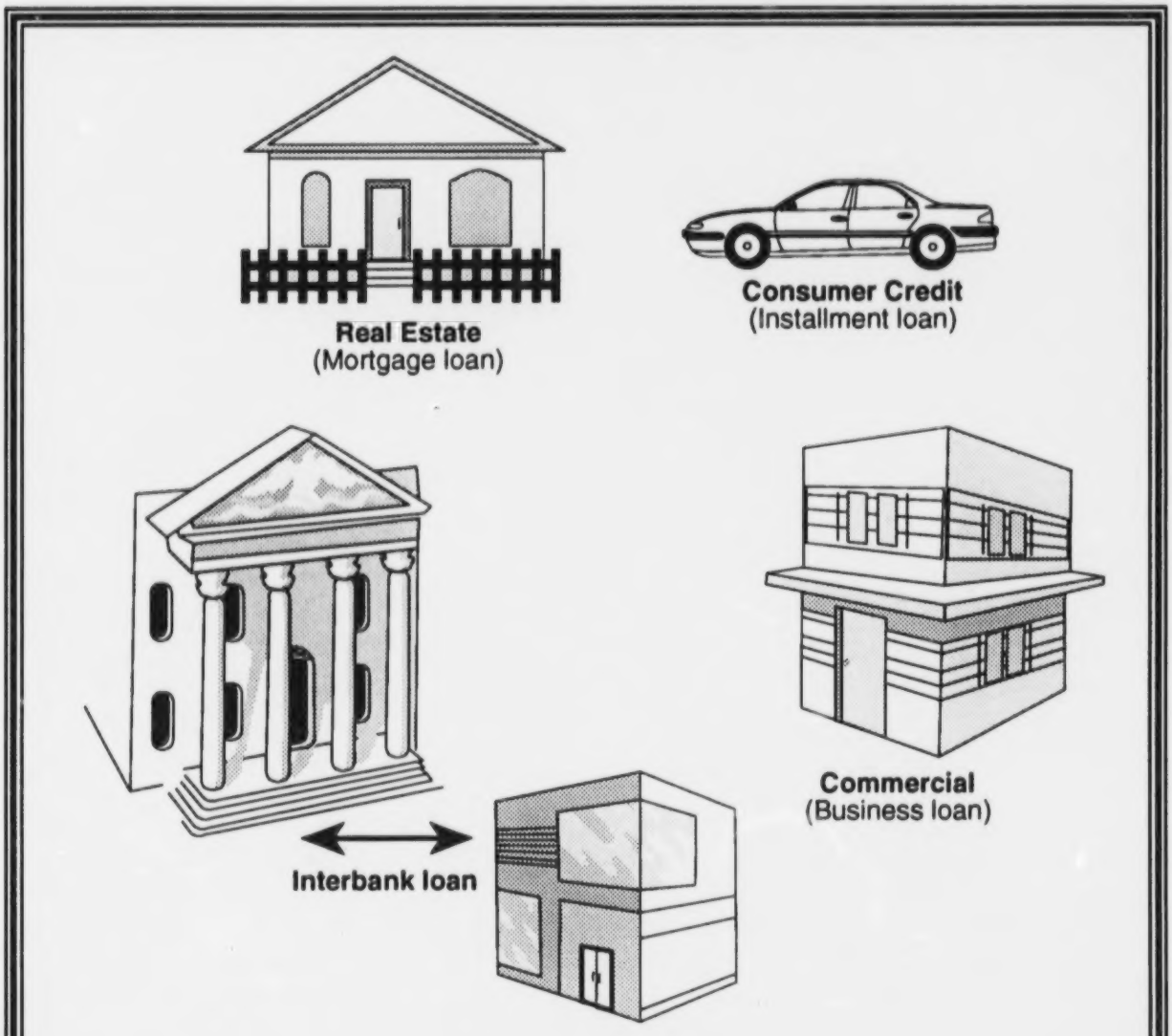
a period of time and is collected in periodic lump sums. With other loans the interest is collected first, before payment is made on the actual amount borrowed, called the *principal.*

Types of Loans

Most loans are divided into two main types—secured and unsecured. With a **secured loan,** the borrower pledges some type of asset, called **collateral**. This can be a savings account that would remain untouched until the loan is repaid, or it could be an automobile or even a house. Collateral guarantees that the bank will get its money if the borrower fails to repay the loan. The bank would claim the valuable item and sell it to recover the funds.

There are three kinds of secured notes. First are chattel mortgages. These give the title of **tangible** personal property to the lender until the loan is paid off. Tangible property can be seen or touched, such as a car. It is considered real property because it has financial value.

Second are collateral notes. These require the debt to be secured with **intangible** real property, such as stocks or insurance policies. These are considered intangible because the actual stocks or insurance cannot be touched. They are considered



Common types of loans

Words to Remember

collateral—an asset pledged to guarantee that the bank will get its money if the borrower fails to repay the loan

cosigner—a person who guarantees that he or she will pay the loan if the borrower defaults

intangible—unable to be touched but carrying a cash or financial value

line of credit—a prearranged and approved maximum amount of credit a financial institution will provide

portfolio—the group of loans a bank has made

prime rate—the lowest rate of interest a bank charges to its best customers, who have excellent credit ratings

secured loan—a loan that includes an asset the borrower pledges to the lender

tangible—real; able to be seen or touched

unsecured loan—a loan granted based on the borrower's promise to repay it; also known as a *signature loan*

real because they carry a cash or financial value.

Third, a borrower may have a **cosigner**. This is a guarantee from another person that he or she will pay the loan off if the borrower defaults for any reason.

Unsecured loans, the second major loan type, are granted based on the borrower's pledge that the amount will be repaid. This is often called a signature loan and is made for smaller amounts. Such loans are made to individuals and businesses with very solid financial footing.

Classes of Loans

Loans can also be divided into several classes. The four that most banks deal with are commercial loans, personal or consumer credit loans (sometimes called installment loans), real estate loans, and interbank loans.

Commercial Loans

This lending area, more than any other, demands a wide variety of expertise from loan officers. Depending upon the type of industries found in a particular region where the bank operates, a loan officer may be asked to grant funds to such diverse operations as retail businesses, the petroleum industry, shipping and other transportation businesses, and import-export concerns. Many large banks divide their commercial lending departments according to these industry areas.

Usually, the amount of money granted in commercial loans is much larger than in personal lending. Therefore, the risk is increased, and commercial lending officers carry a heavy responsibility. Their research carries them away from the bank, where they investigate the many aspects of a business requesting a loan.

Some commercial loans are short-term and are paid back in full in short periods of time, such as 30, 60, or 90 days. Others are intermediate or long-term. These are paid back in installments, ranging from monthly to annually over a period of years.

Most commercial loans are unsecured because the company's ability to repay has been thoroughly investigated and assured before the loan is granted. A special kind of commercial loan is known as a **line of credit**. The is a prearranged and approved maximum amount of credit. A business may draw on it over a specific time period, usually one year.

Consumer Credit Loans

Also known as the installment loan, the consumer credit loan is granted to individuals. Borrowers use the money to buy such items as cars, trips, and home improvements or to pay large bills. Even though the sizes of these loans are much smaller than in commercial lending, banks profit from such loans because the interest rate is usually higher.

Real Estate Loans

Real estate loans constitute a special lending area. Mortgage loans are very competitive. In the past, savings and loan associations carried most mortgage loans, but in recent years, banks and credit unions have sought them as well. Mortgage loans usually involve fairly large dollar amounts over longer periods of time. They are most often granted for the purchase of a house.

Interbank Loans

Often, large city banks that deal in correspondent bank agreements lend money to their corresponding smaller bank. This often happens when the smaller bank is not a member of the Federal Reserve. It may want to grant a larger loan that exceeds its own legal limitations.

Borrowing from a larger bank allows them to take care of their local community needs more effectively.

Interest Rates

Interest rates on loans have their maximum limits set by law, but not all loans carry the same maximum. The greater the risk in lending money, the higher the rate of interest will be. This is one way in which the amount of interest is determined.

Another way is the principle of supply and demand. The greater the demand for loan money, the higher the interest rate will be. Other influences are the financial stability of the borrower, the lender's ability to meet current loan demands, and the type of credit requested.

The **prime rate** is the best, lowest rate a bank charges. It is usually granted only to businesses that are the bank's best customers and have excellent credit ratings. Normally, the prime rate is given for very large amounts that have low handling costs and little risk. Large banks in major financial centers usually lead the way in setting a prime rate, and the smaller banks follow.

Summary

Financial institutions earn money by lending money and charging interest for this service. The loan function of a commercial bank includes the board of directors, loan officers, the credit department, and the note department. Loans, which may be secured or unsecured, may be made for a variety of purposes, such as commercial loans, consumer credit loans, real estate loans, and interbank loans. Various interest rates may be offered, depending on the risk factor, supply and demand, and the prime rate.

Checking for Understanding

1. How is money created through the lending function?
2. Which three areas of lending are regulated by law?
3. What are the four separate departments or areas that play a major part in the loan process?
4. List and define the two main types of loans.
5. What are the differences among the three types of secured notes?
6. What are the four major classes of loans made by most banks?
7. Explain the purposes of consumer credit loans, real estate loans, and interbank loans.
8. How are interest rates set?

10

The Investment Trust Function

Objectives: After completing this assignment, you will be able to—

- define a *fiduciary* service;
- list the five major fiduciary services;
- describe the role of a bank's trust function in settling an estate;
- explain the differences between testamentary trust, living trust, and institutional trust;
- describe the four main services an agent offers an individual; and
- discuss the competitive aspects of employee trust funds.

The trust function of a financial institution is a specialized service. Basically, a trust is a relationship in which one party holds property belonging to another, with some particular benefit in mind.

Let's say a grandmother knew that her new grandchild would need money in eighteen years to help her through college. The grandmother went to the bank and set up a trust. She put money into it and told the bank to invest the money wisely so that her granddaughter would have enough for college in eighteen years. The bank carried out the wishes of the grandmother, and when it was time for the granddaughter to attend college, she had the financial resources to do so.

Trust services are marketed to any person or group who might benefit from them. Trust services are also called **fiduciary** services. It means that a financial institution is given the responsibility of holding and managing certain assets for the benefit of another party.

A person who benefits from a fiduciary service is called a **beneficiary**. The granddaughter in the situation just described would be the beneficiary. The person or institution performing the trust service is called a **trustee**. In the case of the college money, the bank is the trustee. The person establishing the trust, like the grandmother, is known as the **trustor**.

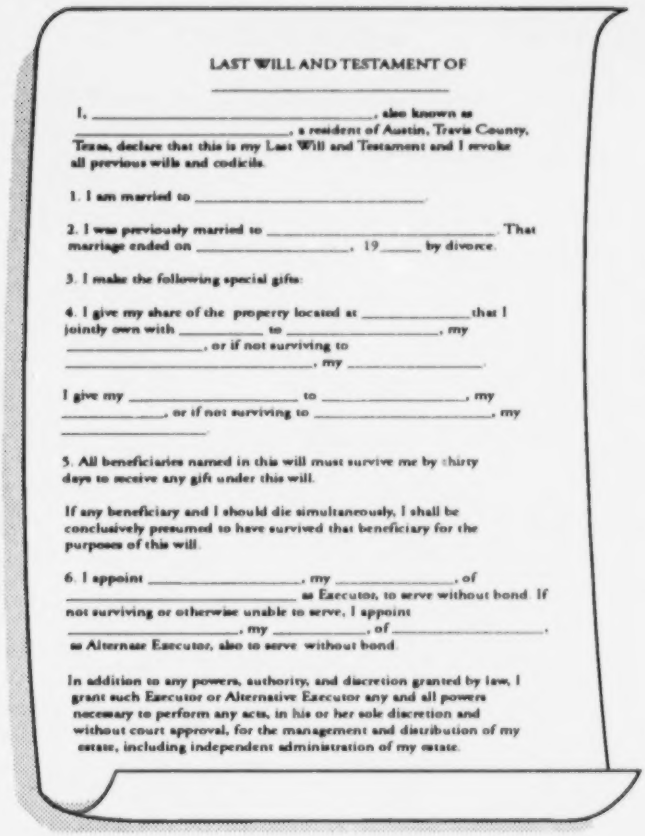
Fiduciary services can be divided into five major functional groups:

- Settling estates
- Administering trusts and guardianships
- Acting as trustee under indenture (agency services)
- Administering employee and retirement plans
- Assisting in estate planning and tax counseling

Settling Estates

Probably the best known of all trust functions, estate settlement is a very important service a financial institution can perform.

The legal term for a person who has died is **decedent**. If the decedent has left a valid will in keeping with state law, he or she is said to have died **testate**. If no will is left



LAST WILL AND TESTAMENT OF

_____

I, _____, also known as _____, a resident of Austin, Travis County, Texas, declare that this is my Last Will and Testament and I revoke all previous wills and codicils.

1. I am married to _____.

2. I was previously married to _____. That marriage ended on _____, 19_____ by divorce.

3. I make the following special gifts:

4. I give my share of the property located at _____ that I jointly own with _____ to _____, my _____, or if not surviving to _____, my _____.

I give my _____ to _____, my _____, or if not surviving to _____, my _____.

5. All beneficiaries named in this will must survive me by thirty days to receive any gift under this will.

If any beneficiary and I should die simultaneously, I shall be conclusively presumed to have survived that beneficiary for the purposes of this will.

6. I appoint _____, my _____, of _____ as Executor, to serve without bond. If not surviving or otherwise unable to serve, I appoint _____, my _____, of _____, as Alternate Executor, also to serve without bond.

In addition to any powers, authority, and discretion granted by law, I grant such Executor or Alternative Executor any and all powers necessary to perform any acts, in his or her sole discretion and without court approval, for the management and distribution of my estate, including independent administration of my estate.

A bank may be named as an executor to carry out the instructions of a will.

or the will is ruled invalid, the decedent is said to have died **intestate**.

In the will, the decedent names an **executor,** which could be a bank, a law firm, or an individual, to carry out the instructions. A bank offers the services necessary to carry out the wishes of the decedent.

The duties of the executor include making an inventory of the decedent's possessions to determine the exact value of the estate. All federal and state tax returns must be filed and all necessary taxes must be paid, based on the estate's value. In addition, all debts must be settled. Whatever remains after taxes and debt have been paid must be distributed among the heirs.

Trusts and Guardianships

Trusts

Although there are many types of trust funds, the most common are testamentary trusts, living trusts, and individual trusts.

Testamentary trusts. When a person dies, a testamentary trust is created under the terms of his or her will. In this case, the decedent is also called a testator because he or she has directed the establishment of a trust fund with the proceeds benefiting certain persons. As trustee, a bank would manage the assets turned over to it by the executor and pay out money to the beneficiaries.

Living trusts. This type of trust does not involve a decedent. It is created by an individual who has drawn up and signed a trust agreement and has transferred certain property, such as money, to the bank. A living trust carries with it certain specific written terms and conditions that both the bank and the individual accept.

Institutional trusts. An institutional trust is formed when a hospital, university, or charitable organization turns over cash and securities to the bank. The bank will manage the investments that have been and will continue to be made. No earnings may go to an individual or private shareholder.

Guardianships

There are two major types of guardianships. One is the guardianship of another person, and the other is the guardianship of property. Guardians are appointed by the court, either for a **minor** (a person of less than legal age) or for a person incapable of managing property regardless of age. The guardian of another person is responsible for meeting the physical needs of that individual, such as food, clothing, shelter, and education. While banks are rarely assigned the guardianship of a person, they are quite often made guardian of property. In this capacity, the bank functions in the same way as a trustee does. The bank holds, manages, and disburses the minor's or incapacitated person's assets and property.

Agency Services

The third category of trust services includes all cases in which a bank acts as **agent** for an individual or a business. Legally, there is a dif-

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ference between the role of agent and that of trustee. Trustees have legal title to the property that is turned over to them. Agents do not. They are given specific authority to act on behalf of a person who still legally owns the property.

Services for Individuals

There are four main services an agent offers an individual, as described below.

Safekeeping. This is the simplest and least expensive agency service offered to individuals. In it, the bank receives, retains, and delivers property according to the owner's instructions. These properties are usually stocks, bonds, and securities. This is different from renting a safe-deposit box. As an agent, the bank knows what the property is, whereas only the owner is aware of the contents of a safe-deposit box.

Custody. Banks can act as custodian by holding property and delivering it as a safekeeping agent does. But it also buys, sells, delivers, and receives property and collects and pays out income for the client. A custodian can also provide information about these securities, even though it makes no recommendations about them.

Managing agent. The bank can serve as a managing agent by giving the owners, also known as principals, information and advice about the securities in their portfolio. The bank also actively manages these securities, sometimes making changes on its own authority.

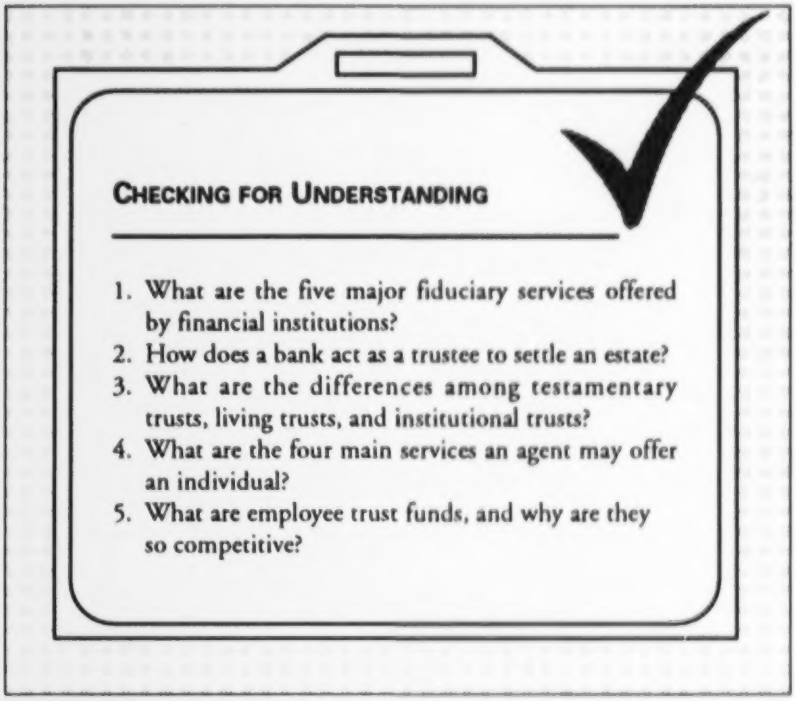
As managing agents, banks often handle real estate instead of stocks and bonds. In these cases, they collect rental income, pay the taxes on the property, provide for its upkeep and maintenance, and credit any net income to clients' accounts.

Escrow. In the role of escrow agent, the bank impartially holds property for two other parties until certain events transpire. Then the bank turns over the property to one party or the other, depending on the outcome of the event.

Words to Remember

agent—a person who is given specific authority to act on behalf of a person who still legally owns the property
beneficiary—the person who benefits from a fiduciary service
decedent—the legal term for a person who has died
executor—someone named in a will to carry out its instructions
fiduciary—holding and managing assets for the benefit of another party
intestate—the legal term for having left no will or having the will ruled invalid
minor—a person who is of less than legal age
testate—the legal term for having left a valid will in keeping with state law
trustee—the person or institution performing a trust service
trustor—the person establishing a trust

An employee pension plan can be created when an employer wants to provide for the well-being of employees when they retire.



CHECKING FOR UNDERSTANDING

1. What are the five major fiduciary services offered by financial institutions?
2. How does a bank act as a trustee to settle an estate?
3. What are the differences among testamentary trusts, living trusts, and institutional trusts?
4. What are the four main services an agent may offer an individual?
5. What are employee trust funds, and why are they so competitive?

Services for Businesses

For businesses, other agency services are offered, as described below.

Transfer and registrar agent. Often the bank transfers ownership of shares of stock from one party to another. It also keeps records of all these transfers.

Paying agent. The bank can serve as a paying agent by paying dividends and interest on stocks.

Depository agent. The bank can hold the cash and securities of companies during periods of corporate reorganization.

Employee Trusts

One of the fastest-growing and most competitive areas of trust services is that of trust funds held for employees of corporations and banks. Employee trusts can be created because of union negotiations, a fringe benefit package, or a desire by the employer to provide for the well-being of employees.

A business may establish a pension or profit-sharing plan and make regular contributions into a trust fund. The duties of a bank in handling such a plan involve accepting all payments, making investments with those funds, keeping detailed records, and making disbursements.

Once a corporation establishes a pension fund to provide its retirees with a regular source of income, it is legally required to make regular contributions into that fund. On the other hand, an employer's payments into a profit-sharing fund change according to each year's profits.

Because banks invest the money from these funds, they establish a track record in the marketplace. Competition is high because employers can compare the performance of several banks or fund managers to select the best one. Banks want these funds because the dollar amount is usually high. The more money deposited with a financial institution, the greater the opportunities are for making a profit.

Planning and Counseling

As taxes on the state and federal level continue to increase, people try to plan ways to invest money so that they don't pay out more in taxes than they have to. Many banks design and set up plans that will reduce the tax burden on an estate, ensure that the assets will go to the survivors as desired, and provide maximum benefits to the client's heirs.

Competition is aggressive in this field, which can include brokerage firms, insurance companies, and estate planners in addition to banks and other financial institutions. Because strict regulation of banks does not extend to other types of firms that handle the same kind of business, competitors can capitalize on what they can do that financial institutions cannot.

Summary

The scope of the investment trust function continues to expand as older customers want to protect their assets for their heirs and as other customers want the bank to perform certain functions on their behalf. Still others become customers as the result of employee pension or profit-sharing plans. As state and federal taxes increase, customers of financial institutions want estate planning and tax counseling.

11

Other Financial Services

Objectives: After completing this assignment, you will be able to—

- describe the process of entering a safe-deposit box;
- identify the conditions under which a cashier's check or certified check may be needed;
- describe the process whereby a certified check is issued;
- discuss why banks and other companies compete for bank card customers;
- explain how cardholders benefit from the competition; and
- tell how a company that issues traveler's checks makes money.

In previous assignments, the traditional services offered by financial institutions have been described. Besides those, there are others available that meet the needs of customers. Many more will be offered in the future as these institutions become more diversified financial supermarkets.

Financial services are offered for a reason. While the institutions may say that they are simply responding to the desires of the public and of their customers, this may not be the whole picture. The main goal of all business, including banks and thrifts, is to make money. Through the fees they charge, many of their services become cost-effective. Although credit unions may not charge fees, they must remain competitive by offering the same services.

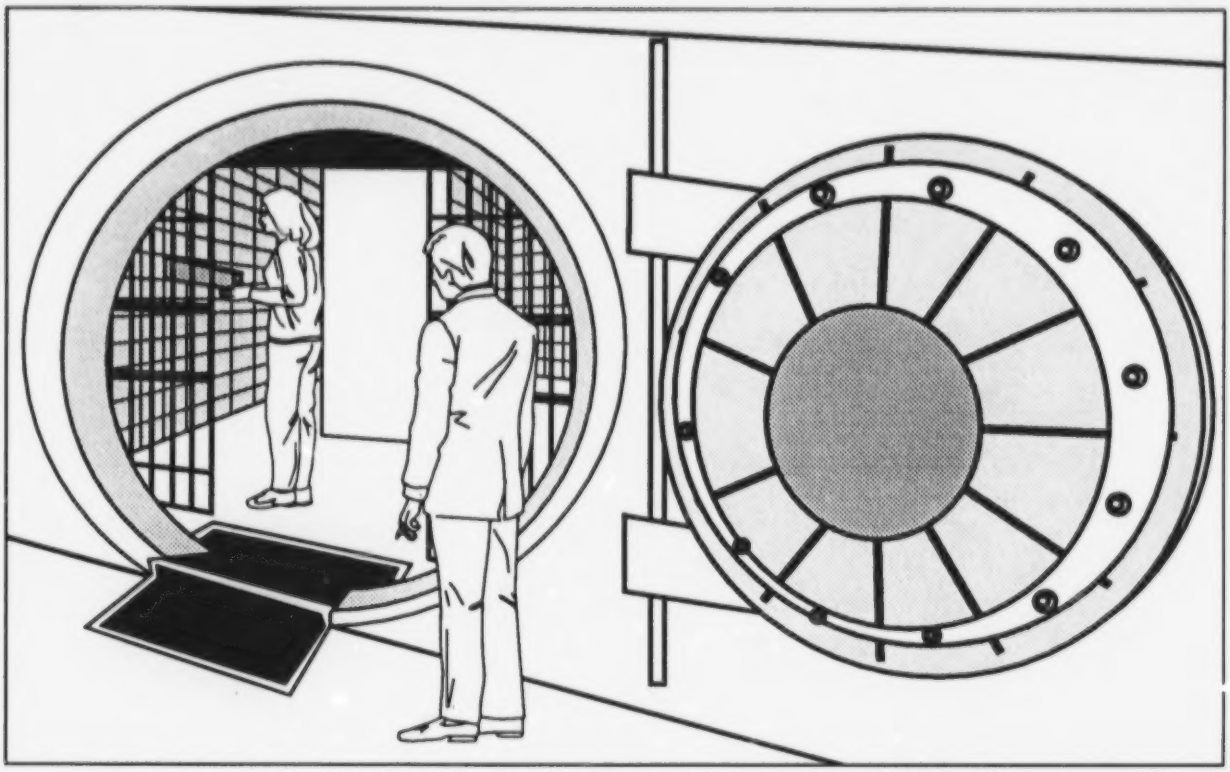
Safe-Deposit Boxes

Way back in the early days of television, bank robbers would hit paydirt when they gained access to the bank vault, where money was stored. Often, after taking all the money, the TV criminals would force the bank employees into the vault and close the door, leaving them to die in a sealed room with no air. It never worked, however, because the good guy with the white hat would save the employees at the last minute and catch the bad guys.

Today, bank vaults are a lot more secure, and they have air circulating inside. They also have **safe-deposit boxes** within the vault that they rent to customers. The amount of the rent, payable annually, is small, usually less than $20, and the service is offered as another marketing plus to the consumer.

Customers may place anything they wish in a safe-deposit box. No one else need know the contents of the box. It is usually used for the safekeeping of valuables, such as jewelry, or for stocks, bonds, currency, or special correspondence—whatever the owner deems important.

Whenever a safe-deposit box is rented, the bank must obtain appropriate signature cards that include the terms of the contract between the bank and the customer. After the papers are signed and special keys are issued, the bank is responsi-



Customers rent safe-deposit boxes to store valuables, stocks, insurance policies, and other important items.

ble for protecting the customer's property.

To gain access to a safe-deposit box, the customer must first sign a card, which is then compared to the original signature card for identification. Then the person presents the key. It takes two keys to open a box—the customer's and a different one held by the bank. Both are placed in keyholes at the front of a small door and turned. The door is opened, and the box inside can be removed. A single key cannot unlock the box. Only the double lock system can open the door.

Certified and Cashier's Checks

Situations requiring a bank's assistance arise when a person will not accept a simple personal check. For example, a person responds to a classified ad in the newspaper for a used car and decides to buy the car. The seller wants more than a personal check from the purchaser; he or she requires a **certified check**. In this way, the seller is assured of getting the money owed, because the bank guarantees the check.

The purchaser of the car writes out a regular check on his account. It will include the name of the person to whom the money is to be paid plus the signature of the purchaser. Then the purchaser goes to the bank, where the teller determines whether enough money is in the checking account to cover the amount of the check. After that has been determined, the teller takes the check and stamps it to make the certification official. Next, the check is marked so that it will not be charged to the customer's account again. As part of the process, the bank may use some kind of perforation to prevent any tampering with the amount.

The amount of the check is charged immediately to the checking account. Then the money is withdrawn and placed in a special bank account, called something like "certified checks outstanding." These checks, legal liabilities of the bank, are a guarantee that the money is in place and that the person receiving the check will actually get the money.

Cashier's checks are similar to certified checks in that they assure the seller that he or she will get the money. The difference is that these checks are drawn on the bank, not on a checking account of a cus-

tomer. To get a cashier's check, a person must pay the bank the money. The bank in turn writes a check to the person who has been promised the money, and the bank signs the check.

Cashier's checks are also available at such places as convenience stores. All the person needs is to give the store an amount of cash. In turn, the convenience store writes out a check to the necessary person and signs it.

A fee is charged for either of these check services, whether by a financial institution or by a convenience store.

Bank Cards

For the majority of Americans, plastic has become a part of everyday life. Credit cards are readily available for most people. In 1990 there were 879 million credit cards in circulation, used to purchase $414 billion in goods and services, with an outstanding debt of $180 billion.

VISA and MasterCard are the two most common bank cards offered. They face intense competition from other cards, such as American Express and the newer Discover card, which is marketed by Sears, Roebuck and Co.

Originally called bank credit cards, these cards have broadened their uses and are more appropriately termed bank cards. Some have also begun to serve as **debit cards** for the electronic transfer of funds. In these cases, funds are transferred electronically from the buyer's account at a financial institution to the seller's account. This is called a **point-of-sale** (POS) **transaction**, because it is not handled on a credit basis.

Banks issue these cards to customers who complete an application and meet the criteria established for their use. Usually, an applicant must have a job and earn enough money to be deemed a good credit risk. The bank establishes a credit limit for each customer, based on the

Words to Remember

cashier's check—a check drawn by a financial institution on its own funds and signed by its cashier

certified check—the result of a process in which the bank guarantees that a customer's personal or business check is good

debit card—allows for funds to be transferred electronically from the buyer's account at a financial institution to the seller's account

point-of-sale transaction—a transaction that is not handled on a credit basis

safe-deposit box—a drawer inside the bank's vault rented by the customer and used to protect valuables, documents, and other important items

traveler's check—a draft purchased from a bank or other financial institution, which, with properly verified signatures, guarantees payment to the business accepting it

Bank cards, such as Visa and MasterCard, benefit both customers and bankers.

information on the application. In the years ahead, if the customer maintains a good payment record, the credit limit may be raised.

The popularity of bank cards has increased as nationwide systems have been created. Such systems as Cirrus and PLUS allow a cardholder to get cash at thousands of ATMs across the country. Banks and other companies that issue such cards do so because large amounts of money can be made, in two ways.

First, most banks charge a yearly fee to the customer for having the card. Second, banks charge high rates of interest on the unpaid balance each month. The interest they earn is a highly lucrative source of income for financial institutions.

Each month the cardholder is mailed a bill for the amount charged that month. If the cardholder made $250 in purchases but can only pay $100, then interest is charged on the remaining $150. That amount is carried until the next month. If $150 more is charged on the card, that month's bill will be $300. The cardholder may not be able to pay anything that month (or only the mandatory minimum payment), and the interest will now be charged on $300. In an economy where regular interest rates on loans might be less than 10 percent, credit card companies customarily charge at least twice that much. Therefore, the pursuit of credit card customers is lively.

Because of the competition, consumers benefit as well. In addition to the ability to charge items to the card, other services are available, such as access to emergency services worldwide, automatic travel insurance, legal assistance, buyer protection programs, and emergency cash.

Traveler's Checks

Each **traveler's check**, used in place of cash or checks when away from home, is signed by the purchaser at the time of purchase. It must be signed again by the purchaser when it is cashed in, and the signatures are compared. Anyone accepting the check, such as a hotel or restaurant, is guaranteed payment by the company issuing the check.

American Express Company introduced the traveler's check in 1891, and it caught on slowly. Over the years the business has steadily grown. In 1989 American Express sold $24 billion in traveler's checks, and its average daily outstandings were $4.2 billion, representing funds paid by purchasers for checks not yet used. This daily outstanding amount was available for investment or for other corporate purposes. Many other credit card companies now issue traveler's checks through banks.

Summary

Although financial services develop in response to customers' needs, they should be cost-effective and profitable. Safe-deposit boxes, certified and cashier's checks, bank cards, and traveler's checks are a few of the profitable services financial institutions offer their customers.

Checking for Understanding

1. How does a person gain access to his or her safe-deposit box?
2. Under what conditions would a cashier's check or certified check be needed?
3. How is a certified check issued?
4. Why do banks and other companies compete for credit card customers?
5. How do cardholders benefit from the competition among issuing institutions?
6. How does a company that issues traveler's checks make money from them?

Part III

Applying Marketing Concepts

12

Research and Planning

Objectives: After completing this assignment, you will be able to—

- describe the events after World War II that ultimately caused banks to market their products;
- discuss the four areas in which databases provide information;
- identify types of database information and how the information is used by banks to determine future projects;
- explain the need for more bilingual personnel in banking; and
- tell how changes in the economy cause changes in product and service planning.

Financial institutions have changed many aspects of their operations over the years, and marketing is no exception. Banks, thrifts, and credit unions have made great strides in the way they market their products.

Historical Changes

In the past, the larger commercial banks were the exclusive suppliers of many financial services. Even so, they carried out these services to a restricted market of businesses, corporations, governmental agencies, and other banks. The needs of a large consumer market did not receive the same attention.

Banks existed to make loans and investments for the big customers. There was relatively little competition and therefore little need for aggressive marketing. It was unheard of. Many bankers were skeptical of salesmen and their approach to business.

Then came World War II, and everything changed. In the postwar economic boom, consumers wanted to be served, not treated as if they were doing the bank a favor by trading there. When one kind of institution could not or did not act to meet the needs of the people, another institution quickly stepped in to do so. Thrifts, credit unions, finance companies, and even money market funds were there to meet the needs that the big banks would not satisfy. In some respects, big banks were left behind in the post–World War II era.

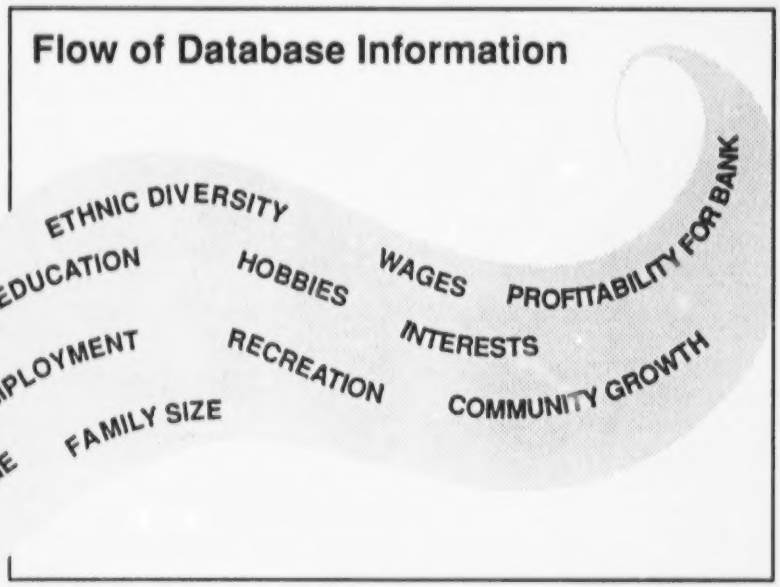
Trying to catch up is not a desirable position to be in, but that is where many banks have found themselves. Today, many competitors are not as regulated as financial institutions, and they have significant advantages in their operations throughout the country. They have penetrated the market that was once the exclusive property of banks. To complicate things, banks have not had the experience in marketing that their competitors enjoy. As a result, banks are entering a new era in which marketing concepts are at the core of their operations.

Marketing in Financial Institutions

Marketing is more than just selling. It involves a full set of activities that can be mixed to meet certain objectives. A total marketing program includes the following seven considerations:

- Research to identify the needs and wants of the types of customers the bank wishes to attract
- Selecting the best and least costly forms of advertising
- Creating new products and services and targeting them to the identified markets
- Training the staff in effective sales approaches
- Establishing staff incentive programs
- Studying the new business and profits and making changes as necessary
- Maintaining a vision of changes yet to come that will enable the bank to expand and prosper

These concepts have been unfamiliar to many financial institutions, and their entry into the marketing field has required changes in thought and approach. Throughout this assignment and in those to follow, we will look at the various steps that financial institutions are taking to market their products.



Market researchers use database information to understand their customers' needs and gear their products and services toward them.

Market Research

One of the most significant areas of change has been in the research that institutions conduct to better understand their customers.

For most large banks and thrifts, product research is handled at the corporate level. Product menus are developed, and branches in other cities or states decide which of the menus to use in their particular market. They need to know what will work and what people need and want. Bankers must understand the people in the community they serve.

Researchers consult the **demographics** of an area for statistical details on that particular population. This is done through **databases,** collections of information organized for rapid search and retrieval by computers. The banks often purchase databases that provide information in four distinct areas. They define the type of consumer who is living in a particular area, such as the kinds of jobs they hold, their level of education, and their ethnicity. They determine who these customers are in terms of age, income, interests, and other such information. They estimate the potential for their institution to acquire more of the market share. Databases can even project which geographical areas are growing in terms of population. This last consideration is especially helpful when deciding whether to open a new branch.

Databases are available from companies that specialize in compiling such information. They are also provided to institutions from their trade associations, such as the American Bankers Association. The larger financial institutions have the resources to compile their own databases.

When senior management identifies the categories of customers it wants to draw, it targets those groups in its marketing efforts. Information is collected through the databases and then analyzed. Potential sales volume, customer and merchant attitudes, and possible problem areas that might arise are studied.

Market research tries to identify the services that would have the greatest appeal to those living in a specific area. Research also estimates the cost of providing those services and benefits. Through surveys and questionnaires, it gathers information on the residents' perceptions of the institution, its strengths and weaknesses, and the products and services it can provide.

Product and Service Planning

Armed with the knowledge they have gained from their research, bankers can make intelligent decisions about their products and services. **Product planning** occurs when bankers make decisions about the products they will offer and how they will be sold to their customers. **Service planning** involves the same types of decisions about the services a bank provides its customers, whether they are free or charged to the customers.

For example, let's suppose that a large bank is planning to open a branch in a low-income part of town. It is doing this in accordance with laws requiring the bank to serve more of the public than only the affluent. Through its research, the bank has found a location in which the number of people who earn small amounts of money is growing quickly. Because a bank branch has never opened in this part of town before, future customers may need more help with their accounts.

One of the decisions the bank makes is to employ more customer service representatives than usual at this branch. In addition, they will be bilingual. They may also maintain business hours later in the evening to accommodate the work schedules of their customers. These are services the bank chooses to provide.

Products will undergo the same scrutiny. The branch bank will not want to promote trust functions in a place where people lack the money to take advantage of them. Instead, the branch might offer savings and checking plans that would fit the lifestyles of their community. Its products might even allow children to take advantage of the branch so that banking there would become a family activity.

Words to Remember

database—a collection of information organized for rapid search and retrieval by computers

demographics—the statistical information about human populations used to identify markets

market research—the gathering of factual information about consumer preferences for products and related services

product planning—the decisions a business makes in the production and sale of its products

service planning—the decisions a business makes regarding the free and for-sale services offered to customers

A decision that must be made is the kind of service an institution wishes to provide. Some offer no-frills service at a lower cost, while others are more service-oriented. This distinction is an important consideration when customers choose a financial institution.

Credit unions are more often service-oriented and cater to their customers to a greater extent. They focus on the quality of service and how it is delivered. If a member of the credit union does not qualify for the loan he or she has requested, employees counsel them on what they must do in order to get the loan the next time they apply. Credit unions explain that they establish such close bonds because the customers are part owners.

Economic Considerations

Product and service planning is also keyed to the economy. In a poor economy, a bank may wish to provide services and products that customers may not need or want in a more healthy financial environment.

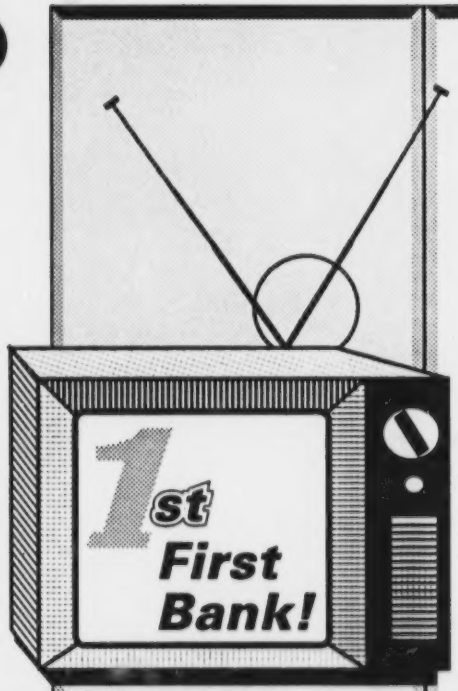
In rapidly growing populations, the interest rate plays a large role in the kinds of services an institution offers and the ways in which it does so. When interest rates are low, many people want home or business loans. In times when rates are higher, the need is the same, but the ability to pay higher rates may be limited. Therefore, planning the services and products to fit the economy is important to an institution.

Summary

As financial institutions have changed, they have begun to actively market their products and services to targeted groups of consumers. Information from databases helps financial institutions learn more about their consumers so that appropriate products and services can be offered. Market research and product and service planning can help financial institutions grow and prosper, regardless of economic challenges.

Checking for Understanding

1. What caused banks to begin marketing their products and services following World War II?
2. In what four main areas do databases provide information?
3. How is database information used to determine future projects?
4. Why is there a growing need for bilingual personnel?
5. What changes might a bank make in the products and services it offers when the economy is weak?



13

Advertising and Promotion

Objectives: After completing this assignment, you will be able to—

- list the six basic forms of advertising most often used by financial institutions;
- identify the different audiences reached by the basic forms of advertising;
- explain the advantages of direct-mail advertising;
- discuss the difference between credit union promotion and that of other institutions;
- describe the move toward concept advertising and the reasons for it; and
- explain the cross-selling concept.

Huge sums of money are spent today on **advertising** and promotion of financial products and services. Quite often, advertising is handled at the corporate headquarters by a department created for that purpose. Advertising agencies also develop campaigns and provide materials to place in specific media. They serve both large and small financial institutions.

Forms of Advertising

The basic forms of advertising are television, radio, newspapers, magazines and trade publications, billboards, and direct mail. Each type has its own advantages.

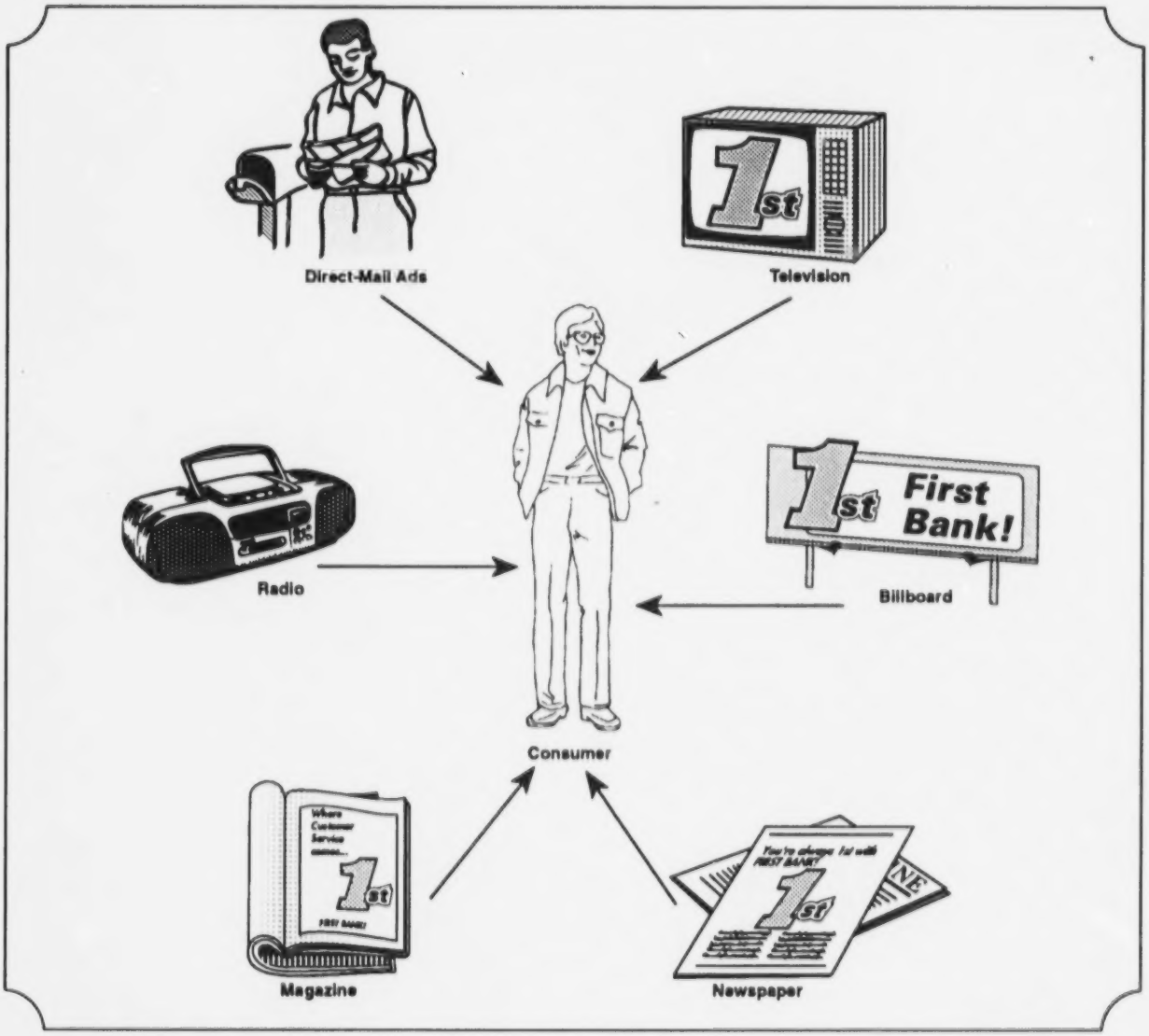
Television commercials may be very expensive, but they will reach a far wider audience than any other form of advertising. Radio commercials during morning and afternoon rush hours can also convey messages to targeted audiences, depending on the stations on which the ads are placed.

Next to television, newspaper advertising reaches the greatest number of consumers. Depending on the section of the newspaper, the message can change. For instance, an ad in the business section of the paper would be slanted to a certain type of reader, but a different message in the sports section would reach another kind of customer.

Magazines and trade publications target specific audiences. The interests of the readers must be known before effective ads can be placed in them. Billboard exposure on major thoroughfares is another way to target a specific audience. On a busy commuter road, radio combined with billboard advertising could present a powerful ad campaign.

Many banks find direct-mail advertising to be effective. Through the databases they already own, banks target a certain area with a particular product or service. Since the information about their needs and wants is already known, banks can concentrate on the services they offer that would match. Heavy advertising in that area yields good results. Institutions believe that direct mail is an efficient use of marketing and advertising dollars, and they can get more return on the money spent.

The advertising approach of credit unions is a little different. They don't have customers. Instead, the people who use a credit union are



Banks and savings and loan associations use a combination of advertising media to reach their customers.

considered part owners of it. Credit unions have a limited market for their products. Those who participate in credit unions are the people who work for large corporations or are affiliated with other large institutions, such as university systems. Credit unions use another advertising approach—**newsletters**. They can strategically place these small, newspaperlike publications in the offices and recreational areas of their consumers. Their messages promote existing products or introduce new ones.

In addition, all banks, thrifts, and credit unions use **inserts** in their monthly mailings. These one-page flyers also promote the institution's programs.

Concept Advertising

In assignment 6 we learned that the trend is now toward a consolidation of companies into large financial services organizations. These may be made up of mortgage firms, mutual funds, savings and loan associations, and brokerage firms. One organization looks much like another. They have the same products, and they offer the same services.

The role of advertising in merged operations is very important, especially when the organization's com-

Words to Remember

advertising—using radio, print, television, and signs to let the public know the products and services your financial institution offers

concept advertising—advertising designed to promote an idea rather than sell a particular product or service

cross-selling—promoting products and services within the same business establishment or from company to company owned by the same organization

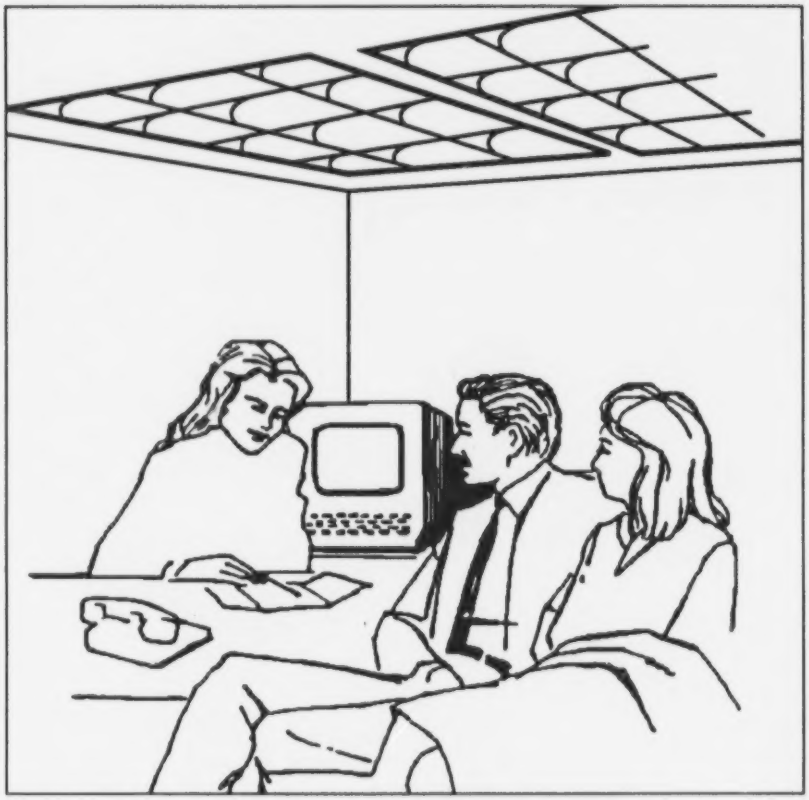
inserts—one-page promotional flyers included in monthly statements or other mailings

newsletter—a small, newspaperlike publication containing information of interest to a specific group

panies have a common link. In this situation, advertising campaigns create an overall concept rather than stress specifics. **Concept advertising** is designed to promote an idea, such as quality or reliability, rather than sell a particular product or service.

Automobile manufacturers are a good example. They all make the same kind of products: sedans, sports cars, small economy types, pickup trucks, vans. However, the consumer views each manufacturer differently. Precision quality may be the cornerstone of one manufacturer's reputation, while another is known for making vehicles that are tough and will last. Reliability, affordability, service, and elegance are concepts developed primarily through advertising; these go a long way in selling the product.

In the same way, financial institutions promote not only their services and products, but also their attention to detail, their interest in people, and the ease of doing business with them. In the years ahead, advertising might target one particular institution as "the one you can count on" and another as "the working man's bank." As the differences among banks, thrifts, and credit unions blur even more, the concept the public has of one institution over another will grow in importance.



Bank employees use cross-selling to recommend additional services to new or current customers.

Cross-Selling

Cross-selling is a technique that is used frequently in business. One large (parent) firm that owns several smaller businesses uses the customer bases in one company to attract new clients in another. Banks, thrifts, and credit unions use such an approach in several ways.

The process is simple. A large bank that owns an insurance company, mortgage company, investment brokerage firm, and mutual fund has a ready-made list of customers in each of those companies. Statistics show that the bank customer who uses more than one service is more likely to stay with that bank rather than hop to another one. There is a direct relationship

between the number of services a customer uses and his or her loyalty to the institution.

Cross-selling can be handled in many ways. People who have mortgages through the institution's mortgage company may receive promotional material in the mail from the insurance company. They may be offered insurance that will make their house payments in case they are incapacitated for a long period of time. Or mortgage holders may be offered an insurance policy that pays off their house if they die.

A customer who uses the brokerage firm to buy and sell securities may automatically become a candidate for a safe-deposit box. Promotional materials can be inserted into monthly statements or mailed separately to potential clients.

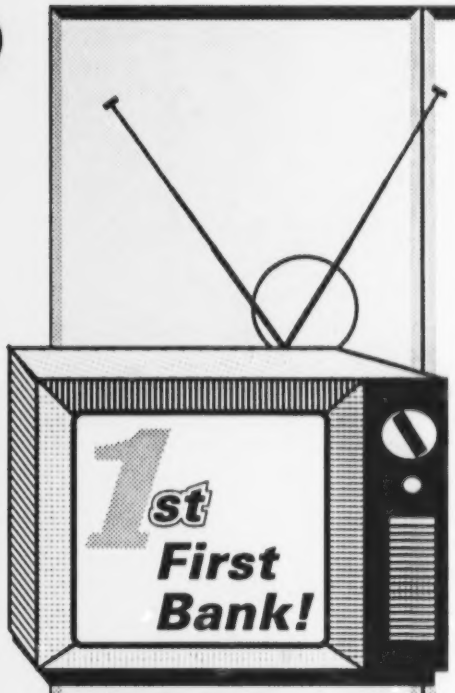
Another way to cross-sell is through employees. When a bank employee is carrying out a service for a customer, he or she might recommend another service that will make that person's banking experience easier. Thus, cross-selling can be carried out from company to company or simply within the same business establishment.

Summary

Advertising is more important to financial institutions now than ever before. As competition grows, the methods of reaching out to existing and new customers will change.

CHECKING FOR UNDERSTANDING

1. List the six basic types of advertising most often used by financial institutions.
2. For each form of advertising, what is the basic audience?
3. What are the advantages of direct-mail advertising?
4. How do credit unions promote their services differently from other financial institutions?
5. How is concept advertising of financial institutions replacing other forms?
6. How does cross-selling work?



14

Risk Management

Objectives: After completing this assignment, you will be able to—

- discuss the two sides of risk management;
- explain how a signature card protects the customer;
- explain why training in risk management is an ongoing process; and
- list the eight ways in which institutions generally establish internal security.

Risk management includes everything that companies do to carry out the security part of their operations. Businesses can purchase various types of insurance to protect themselves from the potential losses incurred by certain risks. For example, financial institutions and other businesses in which employees handle large amounts of cash may **bond** their tellers and cashiers by purchasing a certain kind of insurance policy.

In financial institutions, risk management is divided into two parts: first, the training of employees to protect against dishonesty, fraud, and other criminal acts from the public; and second, the ways in which banks protect against internal wrongdoing.

External Controls

Financial institutions must protect themselves from members of the general public who attempt fraudulent schemes. As any manager will tell you, the best protection against most crimes is well-trained staff who are alert and know the precautionary measures to take. A number of **external controls**, or safeguards from nonemployee theft, allow financial institutions to conduct their day-to-day business.

Signature Cards

When a savings or checking account is opened at any institution, the customer's identity must be clearly established. To do this, the new customer must produce a driver's license or other official identification.

After identification is established, the person opening the account must sign a **signature card** so that his or her handwriting is on file as the authentic signature for that depositor. Some banks ask for more. They want the depositor to supply some personal piece of information, such as the customer's mother's maiden name.

A **scrambled signature system** has become popular as a security practice. A special pattern is built into a camera lens that distorts the depositor's signature so that it cannot be read by the naked eye. When a withdrawal slip or similar document is presented, the signature is compared with that on the bank's signature card using this type of lens.

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A signature card allows the financial institution to verify the depositor's signature before withdrawing funds.

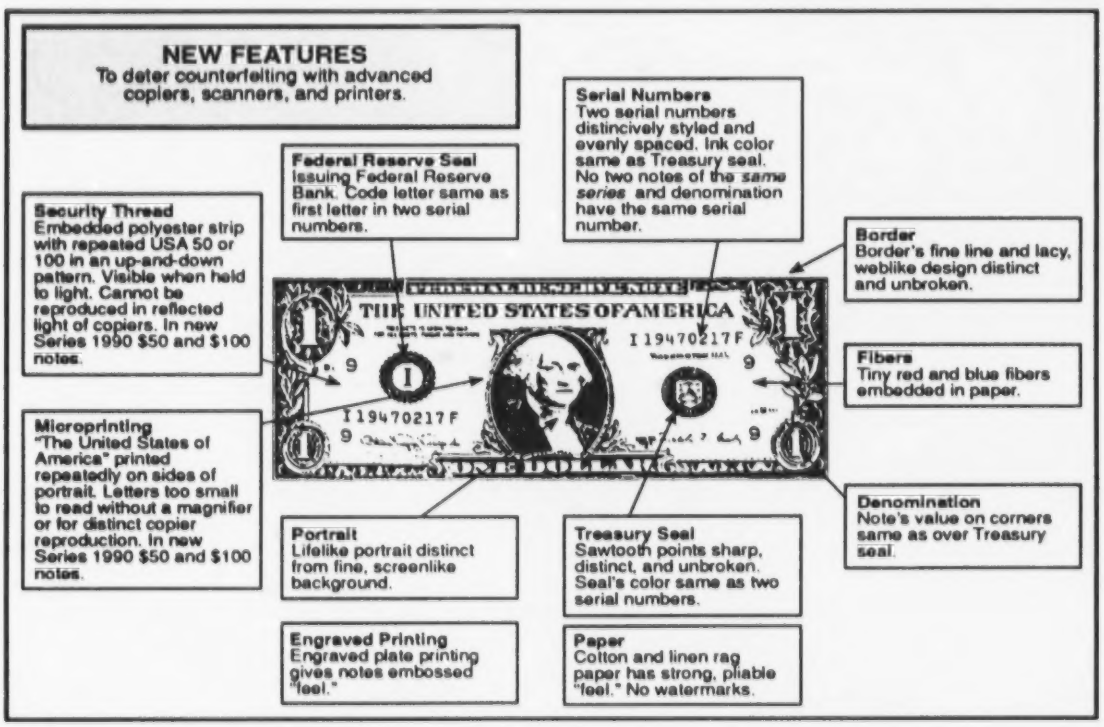
In accepting deposits, tellers must examine currency to detect counterfeits and insist on proper endorsement of checks so that the bank is protected.

Holdups

Banks, thrifts, and credit unions are all subject to holdups. They happen in real life—not just in the movies. Federal Bureau of Investigation (FBI) annual crime statistics show an alarming and regular increase in the number of holdups. Regardless of all the things institutions have done to make holdups difficult and unprofitable, their frequency continues to grow.

Laws require financial institutions to equip their premises with cameras and burglar alarms. Some even choose to use bulletproof plastic shields in front of tellers' stations.

Bank robbery is automatically a federal offense. Even so, the lure of all that money supposedly just beyond the reach of the robbers draws them like magnets to a refrigerator. There are steps that financial institutions can take and lessons they can teach their employees to combat the trend.


NEW FEATURES
To deter counterfeiting with advanced copiers, scanners, and printers.
Serial Numbers
Two serial numbers distincively styled and evenly spaced. Ink color same as Treasury seal. No two notes of the same series and denomination have the same serial number.
Federal Reserve Seal
Issuing Federal Reserve Bank. Code letter same as first letter in two serial numbers.
Security Thread
Embedded polyester strip with repeated USA 50 or 100 in an up-and-down pattern. Visible when held to light. Cannot be reproduced in reflected light of copiers. In new Series 1990 $50 and $100 notes.
Border
Border's fine line and lacy, weblike design distinct and unbroken.
THE UNITED STATES OF AMERICA
I 19470217 F
Fibers
Tiny red and blue fibers embedded in paper.
Microprinting
"The United States of America" printed repeatedly on sides of portrait. Letters too small to read without a magnifier or for distinct copier reproduction. In new Series 1990 $50 and $100 notes.
Denomination
Note's value on corners same as over Treasury seal.
Portrait
Lifelike portrait distinct from fine, screenlike background.
Treasury Seal
Sawtooth points sharp, distinct, and unbroken. Seal's color same as two serial numbers.
Engraved Printing
Engraved plate printing gives notes embossed "feel."
Paper
Cotton and linen rag paper has strong, pliable "feel." No watermarks.

As an employee of a financial institution, you need to be able to recognize counterfeit currency.

First, employees undergo thorough training on how to react to a robbery. They are taught to make every effort to remain calm during a holdup and to take note of the perpetrator's physical characteristics. Employees can activate silent alarms by using a foot pedal or a special device in the cash drawer. Second, they are also taught how to hand over decoy or marked money so that it can be traced once it is spent. Some banks even prepare special bundles of money with devices that explode a dye when the bag is opened. Third, employees learn to keep the robber's note for fingerprint identification.

Swindlers, Thieves, and Con Artists

The very nature of banking provides swindlers, thieves, and con artists with ample opportunity to apply their trades. Those who want to defraud banks are usually highly skilled in dreaming up new ways to deceive banks or to frustrate any security measures that are in place. The schemes are ever-changing. There's always a new one on the horizon. Because of that, training is an ongoing process in financial institutions. Tellers and other bank employees cannot simply end their training after a formal session on fraud. They must continue to keep on top of the latest that criminal minds have to offer.

An often-used method of getting money illegally is by forging the initials of a bank officer for check cashing purposes. A person with a reputation for cashing bad checks may be required to have a bank officer initial the check first before it is cashed. If the person forges the initials and the check is bad, he or she gets the money illegally.

Split deposits are a favorite. This is done when a bank customer wants to have part of a check credited to an account and the remainder paid out in cash. Although many honest people use split deposits, there are also those who attempt to defraud the institution by making confusing, distracting split deposits that are fraudulent.

Telephone calls are sometimes made to give false advance instructions about a check that will be presented for cashing or for a payroll that is to be prepared. Tellers must constantly be on the alert.

Con artists are also on the lookout for bank customers willing to trust them. Sometimes people claiming to be bank examiners or auditors stand outside of a bank waiting for customers to enter. They ask for the customer's help by suggesting that he or she withdraw a large sum of money to test the teller's honesty and turn the money over to the examiner or auditor. They supposedly give the customer replacement cash in a sealed envelope, but it is only newspaper cut up to resemble cash. By the time the customer discovers the substitution, the con artist is long gone.

Institutions try to educate customers to watch out for such schemes. Posters warn customers of the latest tricks, such as impostors dressed in business suits or guard uniforms who offer to take a customer's cash deposit to the teller.

Internal Controls

In addition to protecting against outside forces, institutions must have **internal controls**, which are safeguards that protect them from employee risks. While the great majority of employees at banks, thrifts, and credit unions are honest, a few are not. Given the opportunity, they can and do manage to drain funds from real depositors into their own hands.

Words to Remember

bond—to insure against loss by a business whose employees handle large sums of money

cash count—verifying the accuracy and efficiency of a teller's proof by comparing the amount of money the teller should have with the actual amount on hand

external control—a risk management tool to protect the financial institution from losses caused by nonemployees

internal control—a risk management tool to protect the financial institution from losses caused by dishonest employees

scrambled signature system—a security practice that involves a special camera lens designed to read a depositor's distorted signature

signature card—an official document used by financial institutions to show the customer's authentic signature in his or her handwriting

split deposit—the practice of having part of a customer's check credited to an account and the remainder paid out in cash

Employees who can perform numerous duties help increase productivity and ensure internal security.

It is the job of the security officer or other employee in charge of security to keep opportunities for wrongdoing away from employees. There are eight ways in which institutions generally establish security among employees: vacations, dual control, computer security, duty rotation, unannounced cash counts, prenumbered forms, cameras/alarm systems, and efficiency controls.

Mandatory Vacations

In banks that follow this practice, all employees, including bank officers, are required to take vacations annually. There are no excuses, such as the pressures of business, for avoiding a vacation. The idea is that people who refuse to take a vacation may have something to hide and are afraid a replacement might figure it out during their absence.

Dual Control

Whenever possible, work is divided between two parties. For example, the person who originates an entry affecting the bank's books should not be the same person who posts or approves it. This can apply to many services a bank offers.

Computer Security

Most institutions have automated computer systems, and security has become one of the most important aspects of the internal controls process. Access to the full computer system is limited to only a few persons, and steps are taken to prevent unauthorized operators from obtaining information or initiating entries into the database. The primary records that are constantly scrutinized are the demand deposit balances, credit card usage, and investment holdings. A backup system is often used in case of a power outage or fire.

Rotation of Duties

If employees' duties are rotated periodically, the advantages are twofold. First, it is an effective method of internal control. A clerk who has learned one aspect of a particular operation can be rotated to another position in the same department. This safeguards the system because no one person operates it exclusively.

The second advantage is that such a rotation gives management the flexibility it needs to fill vacancies. It also contributes to the individual's overall training and mastery of different job skills.

Unannounced Cash Counts

Most internal controls programs have unannounced **cash counts**. Supervisors conduct these counts without any warning to ensure the efficiency and accuracy of tellers' proofs, also known as balancing. The first thing an auditor usually does when beginning an audit is to make a cash count.

Prenumbered Forms

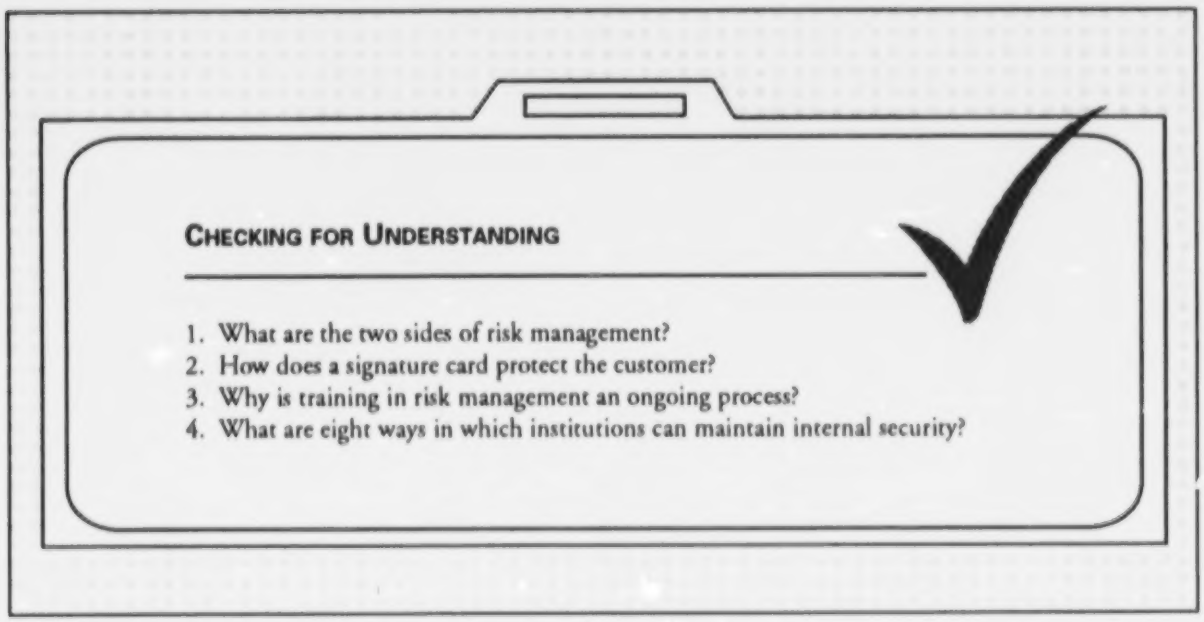
Prenumbered forms provide an operating safeguard. Every form, whether used or voided, must be accounted for. Ledgers in which prenumbered forms are recorded can be placed under dual control, and the forms may be designed with an extra copy for the auditors to use.

Cameras and Alarms

Federal law—the 1968 Bank Protection Act—requires the installation and testing of devices that discourage robberies and help in the identification and apprehension of perpetrators. The law also requires that a person at each location be designated to supervise the installation of the equipment, which usually includes video cameras and an alarm system.

Efficiency Controls

These controls are simply the steps an institution takes to make its



Checking for Understanding

1. What are the two sides of risk management?
2. How does a signature card protect the customer?
3. Why is training in risk management an ongoing process?
4. What are eight ways in which institutions can maintain internal security?

workforce more efficient. As business becomes more complicated through computer processing, the filling out of forms, and the flow of work in each department, getting the most out of employees becomes important. Inefficient operations can be an invitation to dishonesty.

Efficiency is developed by simplifying forms, conducting systems reviews, measuring work, and establishing standards of productivity. One good source of ideas for a more efficient operation is from employees. Suggestion boxes, awards for the best ideas, and other forms of recognition improve morale while adding another safeguard to the system.

Summary

As financial institutions examine ways to prevent losses, they implement both internal and external controls. A well-trained staff is the best way to protect the financial institution against external threats. Financial institutions use a combination of internal controls to protect themselves from employee theft. Because criminal activity is constantly changing, personnel must keep up-to-date on current trends.

15

International Banking

Objectives: After completing this assignment, you will be able to—

- list and describe the four common types of international banking;
- explain the correspondent banking system;
- describe the growth of U.S. branch banking in foreign countries; and
- explain a letter of credit.

A new kind of economy has emerged in the United States in recent years—a *global* economy. Through manufacturing and sales, many countries of the world are tied together. For example, automobile parts manufactured in Tokyo and Berlin can be shipped to Mexico City for assembly and then transported to the United States for sale. For decades this type of manufacturing process has been used, but not on the scale on which it is practiced today.

Along with this cycle of manufacturing and sales comes the need for international financial institutions. The American automobile maker must pay Japanese yen, German marks, and Mexican pesos to the workers in those countries. It must also purchase the materials it needs to manufacture the parts of the automobile.

Common Types of International Banking

As an alternative to opening accounts at banks in several countries, **international banking** is a popular choice of many corporations that want one bank with worldwide operations to handle their financial services. International banking takes a variety of forms, but there are four types that are most common; these are described below.

Basic Services

The most basic international service offered is the exchange of currency. The need for **money exchange** arises when businesspeople or vacationers travel to other countries. Many opt to trade American dollars for local currency upon entering or departing the foreign country, but some do not, preferring instead to transact their business at home. Some industries operate identically at home and abroad, having the banks take care of their currency exchanges.

Commercial Services

The next tier of banks offers commercial services to customers in the form of payments across the border for goods and services. This is done through the use of wire transfers and the issuance of checks. Many companies involved in international trade consider this an indispensable service.

Trade Services

The third form involves the promotion of international trade services to help companies finance their overseas trade. This means that they can borrow money from a bank to expand operations in a foreign country. A common way this is done is through letters of credit to correspondent banks.

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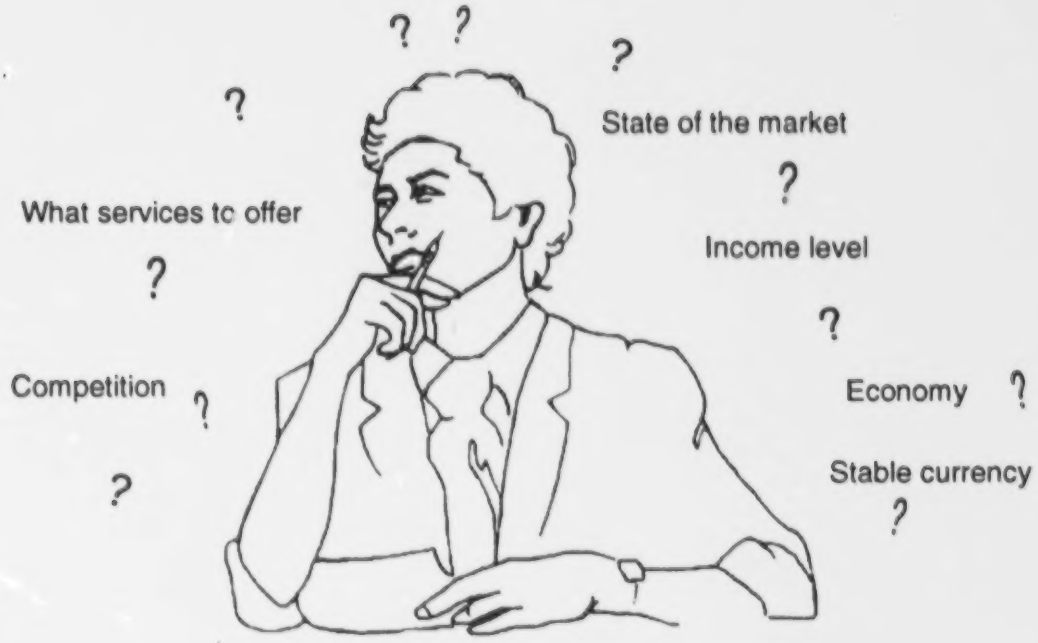


Before opening an overseas branch, bank management carefully studies the situation in the foreign country.

A **correspondent banking system** operates separately but in conjunction with another bank. This system is based on an agreement between banks worldwide by which a bank in one country performs certain services for a bank in another country. These services are carried out on a fee basis. Many times, a bank that serves as a correspondent also has its own correspondent in a larger financial center or in another country.

Services for Foreign Customers

Certain banks have lending officers whose job it is to get new business from foreign-based companies and to provide services to them. To do that, the bank opens up a branch in that country. The largest U.S. banks have employees in foreign countries. Before opening a new office overseas, the bank studies the foreign economy carefully, going through the same process of demographics it uses when opening a branch in this country. Besides the large business that may have attracted it in the first place, the bank learns about the people and other companies there. The bank studies their needs to see if it can successfully respond to them.

Branch banking in foreign countries has grown in the past decade. In 1947 only seven U.S. banks had established branches outside the United States. By 1993, Citicorp alone operated in 93 countries and had more than 2,000 offices in foreign countries.

Letters of Credit

Of all the international services now offered by banks, the best known and most often used is the commercial **letter of credit**. This document assures the buyer and seller that their business transaction will go according to the agreed plan.

A businessperson buying goods wants to be assured that the merchandise being bought will be exactly what was ordered. He or she does not want to pay for poor quality or for something not ordered. On the other hand, the seller also wants assurance of payment after the goods have been shipped. Letters of credit satisfy the needs of both parties and minimize the risks in international trade.

A letter of credit is issued by a bank to guarantee that the manufacturer will get paid if the agreed-upon terms are met. Letters may be issued on either a sight or a time basis. The **sight letter** calls for immediate payment once documents prove that the goods have

Words to Remember

Citibank—the largest U.S. bank; in 1992, it was 25th largest in the world

correspondent banking system—a large bank that maintains an account relationship with and provides financial services to another (usually smaller) bank

international banking—a network of financial institutions that handle worldwide credit, payments, and currency exchange for businesses and individuals

letter of credit—a written guarantee made by a bank stating that payment will be made when certain conditions are met, allowing the importer to pay before receiving the goods but after shipment is made

money exchange—trading one country's currency for the current market value of another country's currency

sight letter—a letter of credit that calls for immediate payment upon receipt of shipping documents

time letter—a letter of credit that specifies a later date by which payment must be made

been shipped. **Time letters** specify a later date by which the payment must be made.

Besides commercial letters of credit, banks can also issue traveler's letters of credit, which a customer takes along when visiting a foreign country. This letter guarantees payments of money up to a limit. Unless large amounts of money are desired, traveler's checks are a much better way to pay for goods and services when overseas.

A letter of credit helps ensure that both the buyer and the seller receive what was promised.

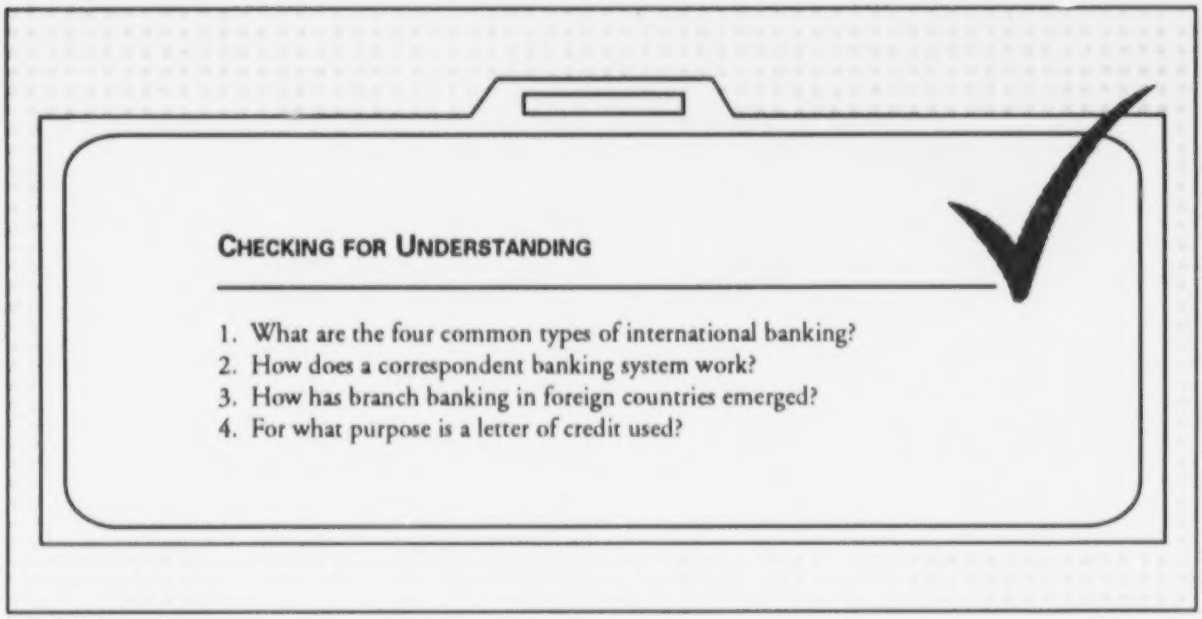
Foreign Banks

American banks are not the only ones expanding in a global market. In a 1992 survey, the top 24 largest banks in the world were headquartered outside the United States, and of these, the top eight were Japanese. **Citibank**, the largest in America, was 25th on the list. Foreign banks have become increasingly competitive in the United States.

Foreign banks have operated in the United States for many years. At the end of 1992 there were 720 foreign bank offices in the United States. They controlled about one-fourth of all banking assets in this country. The Federal Reserve has broad authority to supervise, regulate, and examine these banks, even though many of them operate under state charters.

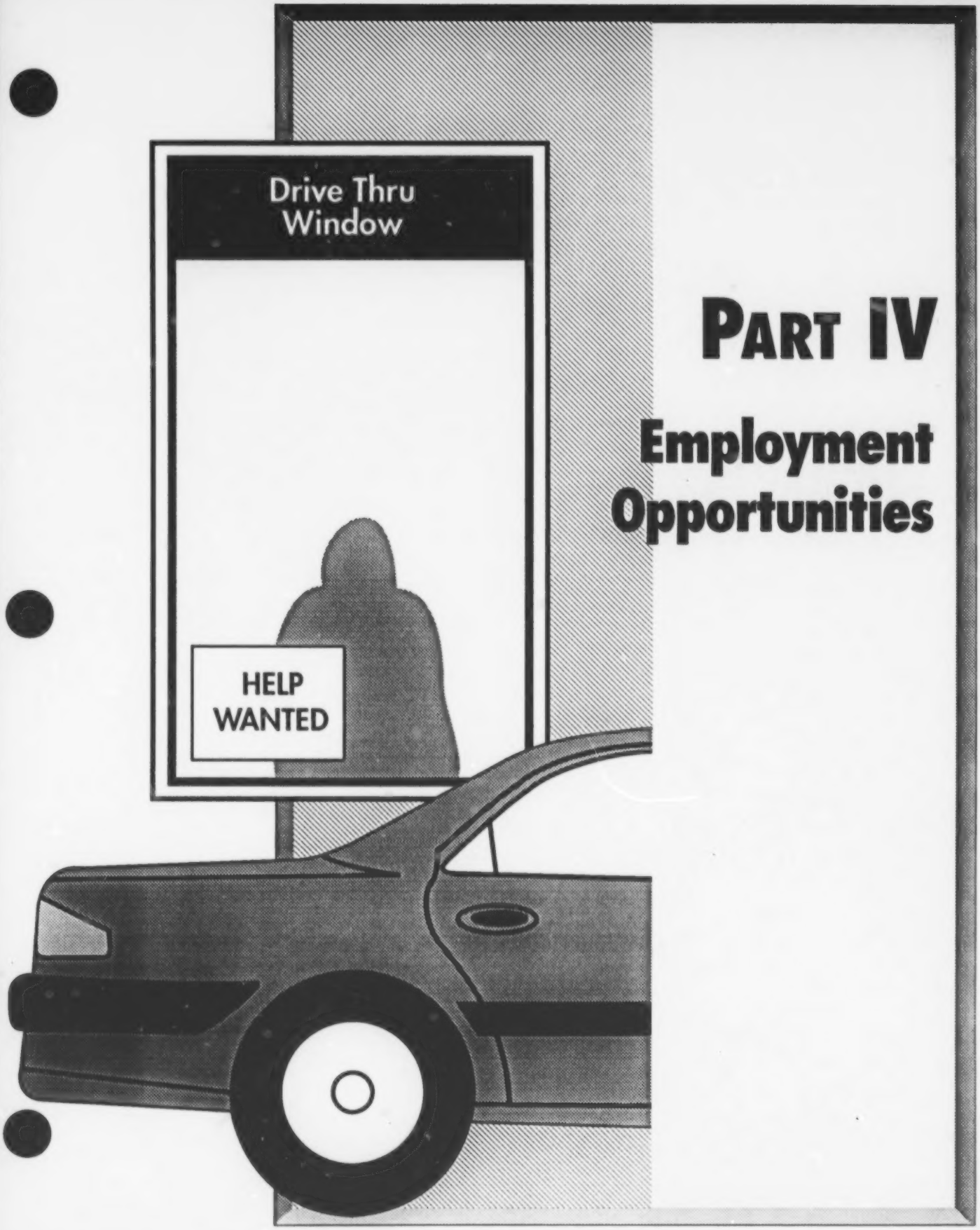
Summary

As the United States moves into a global economy, international banking is becoming more critical. Companies now want one bank with worldwide operations to handle their financial services. Letters of credit satisfy the needs of both buyers and sellers and minimize the risks in international trade. As foreign banks have become increasingly competitive in the United States, American financial institutions have begun exploring foreign markets.



CHECKING FOR UNDERSTANDING

1. What are the four common types of international banking?
2. How does a correspondent banking system work?
3. How has branch banking in foreign countries emerged?
4. For what purpose is a letter of credit used?



PART IV

Employment Opportunities

16

Preparing for Employment

Objectives: After completing this assignment, you will be able to—

- list three personal characteristics required of employees in financial institutions
- explain the four methods by which one can become knowledgeable about computers;
- discuss courses that can be taken in high school to further learning in the field; and
- name three ways to remain aware of new advancements and technologies in the field.

Many opportunities for employment exist in the financial services industry. Consider the facts: There are approximately 11,500 banks operating in the United States; the number of federal and state credit unions is about 12,600; and about 3,400 savings and loan associations are in business. Together, they employ an estimated two million men and women in a wide variety of jobs. For those who believe a career in the financial services industry would be challenging and rewarding, there are things that can be done to prepare for employment.

The more a prospective employee knows about the business and whether he or she has the necessary personal traits, the greater that person's value is to the company and the greater satisfaction that employee will have in that career. Future employees would be wise to pay attention to four important areas: (1) personal characteristics, (2) computer literacy, (3) high school business classes, and (4) lifetime learning.

Personal Characteristics

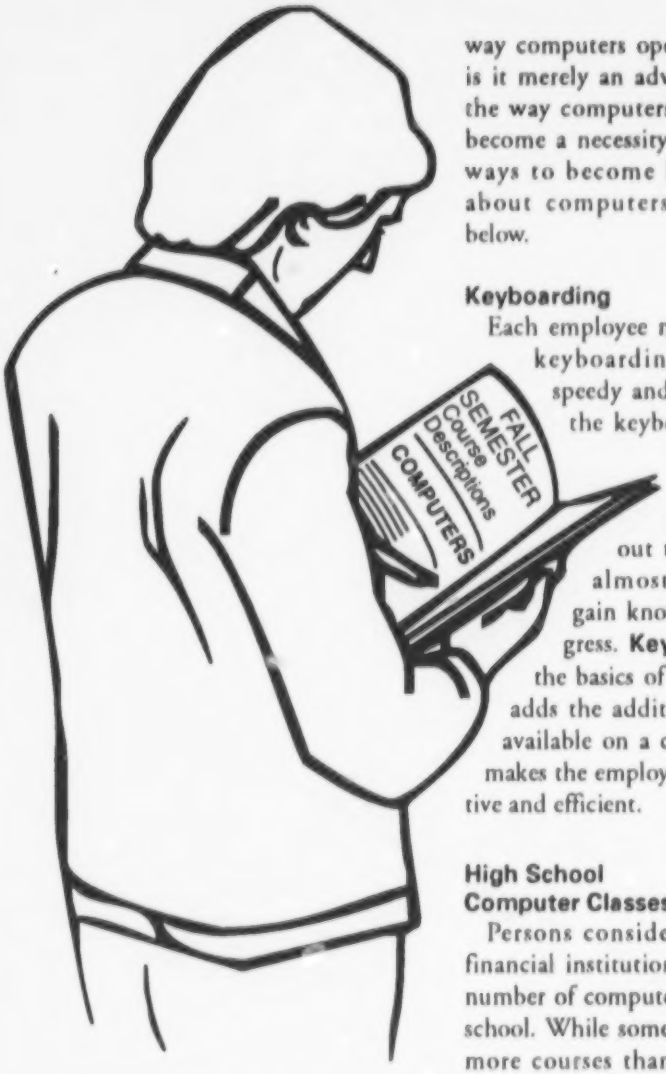
Before pursuing training and employment in the field of financial services marketing, you should look within yourself to see if you have several key characteristics required of employees in this challenging field.

First, are you a "detail person"? In dealing with the money and assets of others, each employee in any financial institution must carefully account for each transaction. "My count is off by ten cents, but that's close enough" is an attitude that will never work in a financial institution.

Next, is your honesty above reproach? Financial institutions cannot hire, train, or keep employees who lie and mislead others with "shades of gray" truths.

Finally, do you have a positive attitude and genuinely like working with people? Employees of financial institutions work with all types of customers and co-workers, so they must have a cheerful outlook. They must also allow customers to be right (even on those occasions when they are not!). Dealing with unhappy or dissatisfied customers is a reality of working in financial institutions.

If you identify problems within any of these areas, perhaps you should reconsider your career choice



Sudents should enroll in computer courses while still in high school.

and select a different pathway. In order to be successful and happy in your chosen career, you should have the required personal characteristics.

Computer Literacy

Among the usual requirements for employees in the field of financial services marketing, one skill stands out above others. This is the area of **computer literacy**, or knowing the way computers operate. No longer is it merely an advantage to know the way computers operate; it has become a necessity. There are four ways to become knowledgeable about computers, as described below.

Keyboarding

Each employee must know basic keyboarding skills. The speedy and accurate use of the keyboard is essential to operating a computer, and without this ability, it is almost impossible to gain knowledge and progress. **Keyboarding** takes the basics of typewriting and adds the additional keystrokes available on a computer, which makes the employee more productive and efficient.

High School Computer Classes

Persons considering careers in financial institutions should take a number of computer classes in high school. While some schools provide more courses than others, all are required to offer the basics.

Computer Applications

A keyboarding class and basic computer courses enable students to learn about computers, general operating procedures, and what computers are capable of doing for the skilled user. Through these steps, high school students should learn **computer applications**, or the ways in which computers are used to do specific tasks in business. One application of computers is bookkeeping, another is billing, and still another is filing.

Computer Programs

The prospective employee should know a variety of computer programs. Even though these programs may not be the ones used by a particular business, they often do the same jobs. Two programs may carry out the same tasks, but they use different keystrokes to complete the command. For instance, one word processing program may be different from another, but they both must use a file name, they both save their material in some way, and they both get material printed by the touch of certain keys. If a person knows one word processing program, then he or she expects another program to carry out similar tasks. The keys may be different, but the idea is the same. Knowing what one program can do is very helpful in working with another.

You can learn computer programs by reading. Bookstores, both new and used, sell manuals on the latest programs. Many independently run stores sell used programs with much lower prices than if purchased brand new.

High School Business Courses

A wide variety of courses in high school can assist in a financial services career. Accounting and bookkeeping classes teach the numbers side of a business. Students can learn a lot more in these classes than how to enter numbers on a page.

Courses in communications and advertising are also important. If specific classes are not offered in these areas, the basics can also be learned through work on a high school yearbook or newspaper.

Words to Remember

computer applications—the ways in which computers are used to do specific tasks in business
computer literacy—knowing the way computers operate
jargon—the vocabulary used in a specific industry
keyboarding—training that includes the basics of typewriting and adds the additional keystrokes available on a computer, which makes the employee more productive and efficient
networking—making contacts with others in the same business by talking with and listening to them
professional journals—periodicals designed for an audience of readers in a specific business or industry
professional conference—a meeting designed for an audience of people employed in a specific business or industry

Participating in professional conferences gives employees current industry information.

Finally, business and economics courses are invaluable to students entering a career in financial services. Such courses offer a larger view of the field than can be gained any other way. Internships, youth apprenticeships, and cooperative education are options that allow high school students to gain practical training and experience out in the business world while taking related courses at school.

Lifetime Learning

Entering the field of financial services means entering into an understanding that it will take a lifetime of learning to keep up with change. Having a high school diploma or even a college degree does not mean you have learned everything there is to know about financial services.

This is a society in which change is the norm. It is difficult for a person to keep up with the many changes that are taking place when he or she is devoting the greater part of the day simply to getting the job done. To some extent, the company will educate its employees about the newest technologies and advances made in the field.

On the other hand, the responsibility also falls on each employee to remain aware of important changes. Those who do not can be left behind. Three approaches, described below, can help employees keep current.

Professional Journals

A number of periodicals that discuss all aspects of the financial services field are available to you. **Professional journals** and magazines discuss the industry's people and their ideas as well as current trends, the latest technology, and projections for the future. Anyone starting to read a professional journal should be patient. It takes time to become comfortable with the **jargon**, or vocabulary used in a specific industry. Sometimes journals assume the reader already knows certain things, and this can be difficult for a beginner. The best way to overcome such a situation is to keep reading. It won't be long before the words become interesting and maybe even motivating. Journals are also an ideal way for a very busy person to keep informed, because they can be read at any time.

Continuing Education Classes

This approach augments what is learned in the training programs

provided by the company. Organizations such as the American Institute of Banking offer these courses. Such external programs train and develop employees of financial institutions through offering comprehensive course content. There are graduate and undergraduate schools of banking in colleges and universities that provide basic and advanced banking-related instruction.

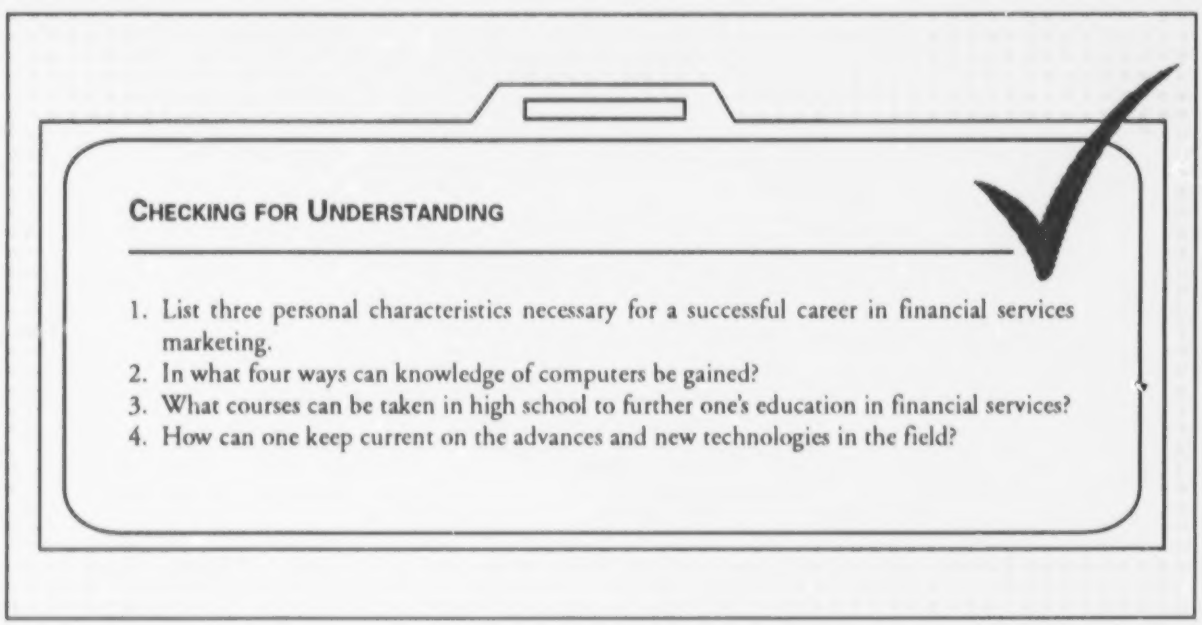
Professional Conferences

News about conference dates and schedules is available through the professional journals or at your place of employment. You may attend these **professional conferences** either as a company representative or as an interested individual. Usually companies pay related expenses for employees to attend certain conferences. If not, you may choose to attend on your own.

Many conferences schedule the heaviest part of the program on the weekend so that a wider audience can be reached. Besides the information received by listening to speakers, much can be learned by talking with and listening to others in the same business, an activity commonly referred to as **networking**. Contacts made at conferences can be helpful in your career.

Summary

Looking within yourself will help ensure that you have the personal characteristics required for a successful career in financial services marketing. Employees of financial institutions must be computer literate and have taken additional courses in high school, college, or on their own to enter and advance within this ever-changing industry. Those who want to move into supervisory and management positions understand the importance of lifetime learning and therefore strive to read professional journals, continue their education, and attend professional conferences. With more than two million persons employed in a variety of jobs, you can find a rewarding career in financial services.



Checking for Understanding

1. List three personal characteristics necessary for a successful career in financial services marketing.
2. In what four ways can knowledge of computers be gained?
3. What courses can be taken in high school to further one's education in financial services?
4. How can one keep current on the advances and new technologies in the field?

17

Training in a Bank, Credit Union, or Savings and Loan

Objectives: After completing this assignment, you will be able to:

- discuss employment opportunities in the financial services industry;
- describe the five factors that influence an institution's success in business; and
- explain the need for ongoing training as it relates to changes in laws.

Over the decades, many men and increasingly more women have started out at the bottom and worked their way to the top positions in banks, savings and loans, and credit unions. That opportunity still exists for men and women. An **opportunity** is a good chance for advancement occurring at an appropriate time.

If you are interested in working in financial institutions, you have many options. You can choose a bank, credit union, savings bank, or savings and loan. In addition, you can select a large operation with many branches or a small, one-location business. Internally, there are various departments that might benefit from your skills—accounting, personnel, credit, paying and receiving, trust, data processing, and many more.

Regardless of the institution, an unwritten dress code is usually present in all companies. A **dress code** is the written or unwritten expectations of the business regarding the clothing, accessories, and grooming of employees. The overall "look" called for by most dress codes is **conservative**, a word that refers to traditional norms of taste, style, or manners.

Expected attire is businesslike in that women are expected to wear dresses or skirts and blouses to work every day, rather than jeans or shorts. The same goes for men, who usually are expected to wear neckties with their suits or slacks and business shirts. Hair styles and makeup tend toward generally accepted norms, not the unusual. Employees who work directly with the public must appear neat and professional.

Training Techniques

Training employees to do a good job involves more than conducting a class. **Training** involves both formal and informal methods of teaching employees job skills in order to reduce mistakes, increase worker productivity, improve relations with co-workers, and motivate the employee to learn more about his or her job.

Well-trained employees will result in fewer customer complaints and more satisfied customers. Further, well-trained employees are more self-confident, easier to work with, and more highly motivated. The way a bank or thrift perceives its role in the community has a lot to do with its success. Five main factors (described below) influence an institution's success in business.

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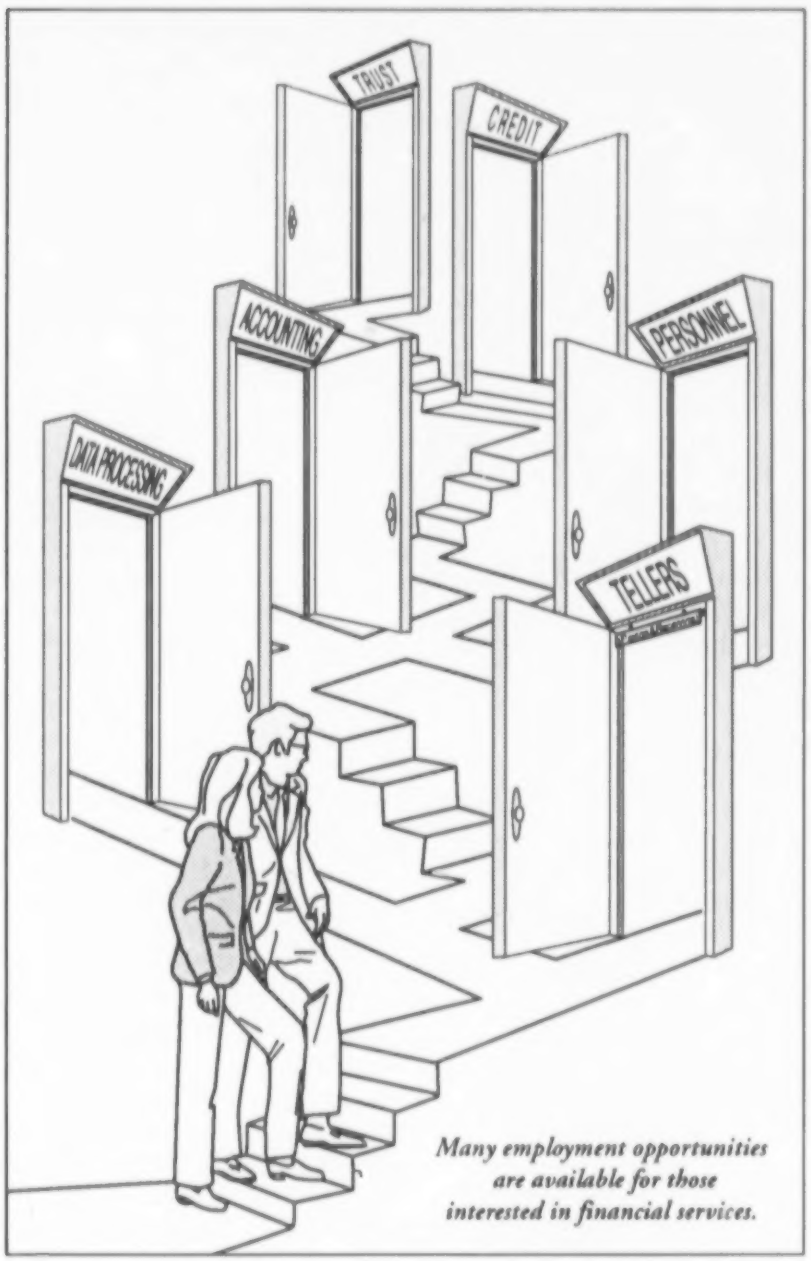
Employee Hiring Skills

Hiring the "right" employees is important in any financial institution. A major factor that controls how successfully a bank is operated is its employees. They are the front-line to the public. The manner in which they relate to customers is directly linked to the satisfaction of those customers and the ability to attract more. Careful attention, therefore, is given to hiring the right people.

Excellent Customer Service

In the highly competitive world of financial services marketing, you must recognize that your customers want more than just the product or service that your institution offers. Customers expect to be treated well and will not continue to do business with your institution if they are not. Satisfied repeat customers relate to others, through word-of-mouth advertising, situations in which employees went "above and beyond" the customers' expectations in providing excellent customer service.



Many employment opportunities are available for those interested in financial services.

Willingness to Change

The financial services industry is changing rapidly, and the institutions that recognize and act on this fact are the ones that will remain successful. In seeking a job in this field, it would be wise to study the institution's response to change and its willingness to remain open to even more transitions on an ongoing basis.

Development of New Skills

As banks grow in size and number, more people are hired to carry out the increased duties, but simple staff growth is not all that is needed today. As daily tasks increase in complexity, new skills become essential. It is the job of the institution and the employee to be aware of new technology and the skills required to master it.

Ongoing Training

When employees are hired, it is important that they receive proper and thorough training. This is a task of the personnel division. Large banks often use a full training department, while smaller institutions may employ only one training director. Others could simply turn over the total training responsibility to the department managers and supervisors where the new employees work. In any case, much of the teaching is carried out by departmental employees who are most familiar with those operations.

Words to Remember

conservative—following traditional norms of taste, style, or manners

dress code—the expectations of a business regarding the clothing, accessories, and grooming of employees

opportunity—a chance for advancement occurring at an appropriate time

reinvestment—money being circulated within the community instead of immediately going to business operations located outside of the neighborhood

training—a formal or informal method of teaching employees job skills in order to reduce mistakes, increase worker productivity, improve relations with co-workers, and motivate the employees to learn more about their jobs

Training is not simple. Because banking is a highly regulated industry by the federal and state governments, employees must be knowledgeable about the regulations that apply to their work. For example, tellers must be trained not only in the functional skills that most customers observe when they visit the bank, but also in the provisions of the laws and regulations that affect them.

Financial Laws and Regulations

Bank Secrecy Act

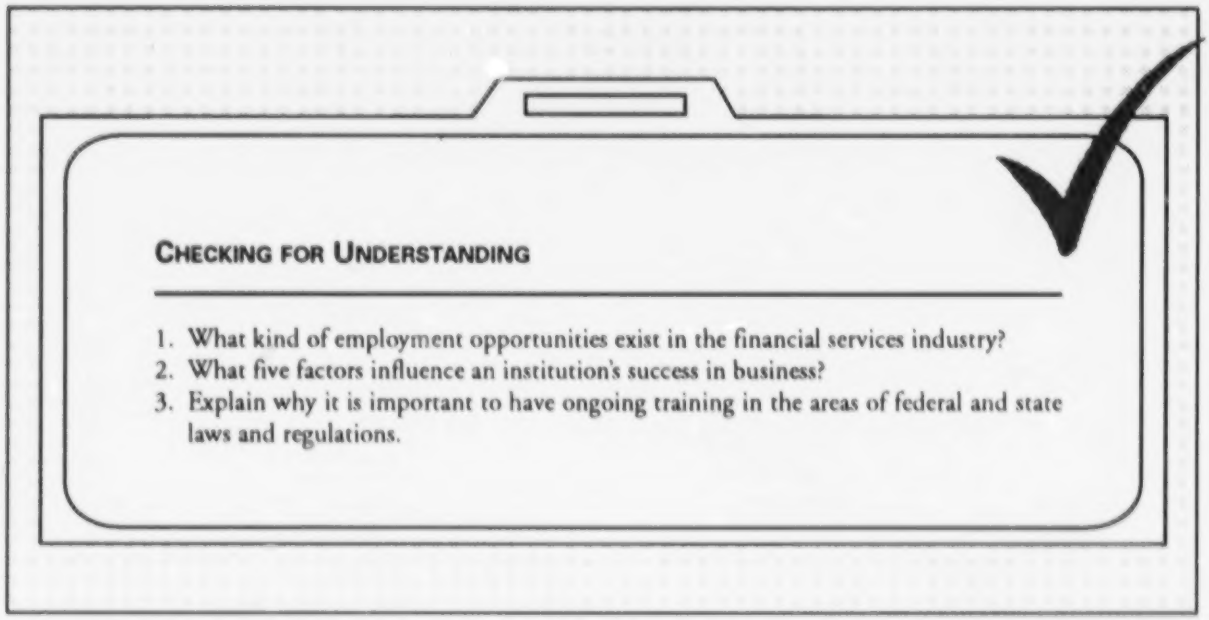
Knowledge of this and other federal regulations is essential to employees of financial institutions. Each employee of a financial institution must understand the confidential nature of his or her work. Further, employees responsible for opening new accounts must know the routine documentation and procedures. In addition, they must be trained in the regulations that govern disclosures, authorizations, and liabilities. As previously mentioned, they must receive training in security and protection against crime.

Community Reinvestment Act

Those who work in the loan department must be trained so that they are familiar with this act, which requires a move toward acquiring customers with low and moderate incomes. This **reinvestment** in the local community circulates money within the community instead of allowing it to go immediately to business operations located outside of the neighborhood. Reinvestment tends to revitalize a sluggish economy and instill neighborhood pride.

Many federal regulations must be learned as well. Regulations and laws are sometimes modified, adjusted, and even made to evolve into new applications. Congress, in response to the demands of people and business, rewrites old laws and introduces new bills. Federal Reserve requirements also change, depending on the economy and the outlook for the future. In all these areas, training is essential for financial institution employees, both the

Once hired, new employees receive hands-on training from their supervisor.



Checking for Understanding

1. What kind of employment opportunities exist in the financial services industry?
2. What five factors influence an institution's success in business?
3. Explain why it is important to have ongoing training in the areas of federal and state laws and regulations.

newcomers as well as the more seasoned workers.

In addition, the needs of consumers shift, and new products are developed to meet those needs. Because of such considerations, training in the legal aspects of business is a continual process in the industry. It is the institution's most important response to change.

Summary

Opportunities for advancement within the financial services industry will continue to be available to employees who are well trained and keep themselves informed about the changes in financial laws and regulations. It is important to keep in mind the conservative nature of financial institutions regarding dress, grooming, and manners. As a financial institution develops its role in the community, common elements found in its training program should include employee hiring skills, willingness to change, development of new skills, and ongoing training.

18

Related Financial Industries

Objectives: After completing this assignment, you will be able to—

- discuss the growth and popularity of pawn shops;
- describe the process by which a loan is secured from a pawn shop;
- explain how retail credit is similar to the loan function of a bank;
- briefly describe the two methods by which credit may be extended by a retail operation; and
- list and describe at least two additional related industries.

The financial services industry extends beyond the banks, thrifts, and credit unions. In a modern society, there are many other ways to receive similar services at other businesses. A consumer can get a loan or be granted credit at places other than banks.

Two such places are the pawn shop and the retail outlet. Because of their loan and credit functions, they are considered alternatives to conventional financial institutions.

Pawn Shops

Increasing Popularity

Growing in numbers throughout the United States, **pawn shops** are stores in which a variety of used items are attractively displayed on shelves and in cases. Although the majority of the merchandise has been previously owned, many pawn shops also have jewelry departments featuring new but discounted merchandise.

No longer places where criminals exchange their stolen goods for money, these operations are law abiding and service oriented. Several pawn shops have become so successful that they operate branches in several states. Some have even "gone public," becoming part of a national stock market in which shares of the company are sold. At that point, the company is no longer privately owned but is **publicly held** by those members of the general public who own shares in the company.

Pawn shops serve as lenders, and in that way they are regarded as participants in the financial services industry. The amount of money they lend is usually much less than that of banks, credit unions, or thrifts. The top amount of a pawn shop loan may be $1,500 to $2,000. Many banks would not consider lending such small amounts. That is where pawn shops step in to fill a consumer need.

In the past, the pawn shop was considered a poor man's lending institution. The people who were turned down for loans by banks went to pawn shops for the money. Today that is not the case; people of all backgrounds use them.

The Lending Function

The way a pawn shop works is simple. Let's assume a person needs money to pay for unexpected car repairs. She owns a computer, which she is willing to **hock**, or put in a pawn shop in exchange for money.

Pawn shops enable consumers to turn items they no longer need into loans.

When she enters the pawn shop, she tells the person at the counter that she would like to borrow money on her computer. The pawn shop employee examines the computer and then consults his own list of values. He sets an amount he is willing to lend based on the computer's worth. The owner agrees, and a deal is struck.

The next step is the paperwork. A **pawn ticket** is written on the item. It contains personal information, such as the name of the borrower, her address, and a driver's license or other identification number, which is required by law in Texas and most other states. It also details the amount of the loan and interest, plus the terms agreed upon. The serial numbers of the computer components are recorded.

All of this information is entered into the pawn shop's computer for record-keeping purposes. There are three copies of this pawn ticket. One is given to the borrower, the second is kept by the pawn shop, and the third goes to the local police department. Every transaction follows this procedure. After the paperwork is completed, the borrower receives her money, and the computer is retained by the pawn shop.

The computer is placed in a storage room with other pawned items. The borrower will have thirty days to pay back the money plus interest. After that, she will have another sixty-day grace period. At the end of that time, she has three options: (1) she can pay only the interest on the loan and get an extension of ninety days more to repay the original amount, plus more interest; (2) she can repay the amount of the loan plus interest and get her computer back; or (3) she can pay nothing and lose the computer.

A Win-Win Situation

The pawn shop views its operation as a **win-win situation**. If the customer repays the loan with interest, the shop has made money (the interest). If the customer abandons the item, the shop can sell it for twice as much as it lent the borrower. Either way, the pawn shop makes money.

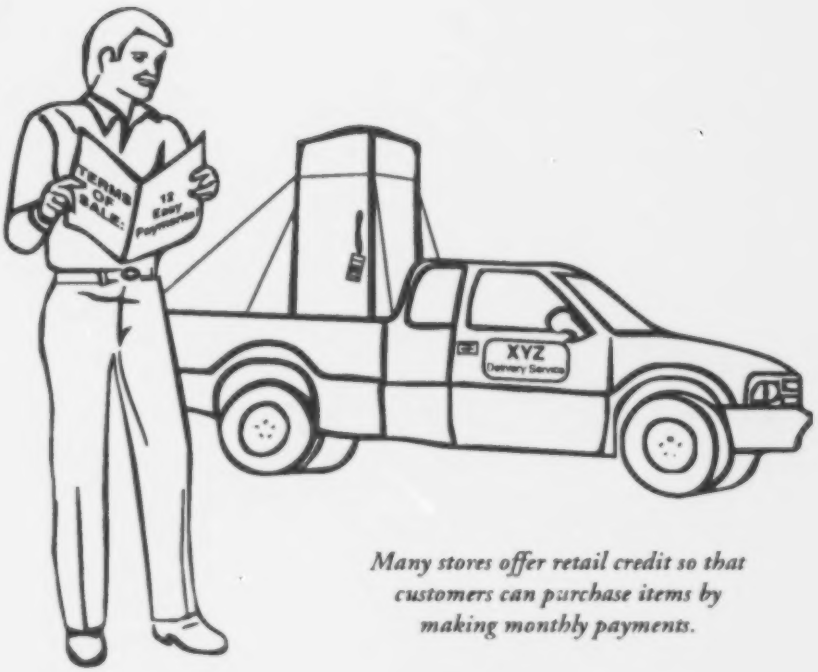
Interest rates are high at pawn shops, between 18 and 30 percent. This amount is regulated by the state in which the pawn shop does business. In states where the interest rate is set lower, very few pawn shops exist. Texas has favorable laws, which are administered by the Consumer Credit Commission. Interest rates are set by the state legislature and are subject to change annually on July 1.

Pawn shops deal strictly in cash. Loans are paid out in cash, and most shops require repayment of the same kind. By law, pawn shops must work closely with local police. They send copies of their transactions to the police every day.

Pawn Shop Employment

Pawn shops are usually small operations. Besides a manager or owner of the store, several assistants are needed to serve customers. A college degree is not required, but knowledge in many areas is important. You can gain valuable experience by working as an assistant.

Pawn shop employees learn the value of merchandise. They use **blue books**, similar to the ones that list automobile values, for almost every type of item they accept. Employees also must be able to operate a computer, because much of the record keeping is carried out in this manner.



Many stores offer retail credit so that customers can purchase items by making monthly payments.

Pawn shops buy and sell handguns, and employees must learn the laws pertaining to their sales. In an era in which legislation on gun sales changes rapidly, keeping up with the latest rules is essential. Pawn shops prefer to employ persons over the age of 21 so that they can sell handguns.

Managers look for employees with good people skills. They want workers who are at ease with customers and who can deal with them in a pleasant but nonemotional way. Working in a pawn shop is not an 8-to-5, Monday-through-Friday job. Most shops are open late and on weekends, so a job in this area would probably require some flexibility.

On the other hand, those who work in pawn shops say that they discover something new every day. No two days are ever the same, and they learn a lot about people as well as merchandise.

Retail Credit

Retail operations are similar to financial institutions in that they grant credit to customers. This process can take place in small stores as well as the giant chains that have outlets nationwide. Credit to a retail store is the same as a loan is to a bank. The only exception is that the customer must use the credit for a specific purchase, such as a refrigerator or a pair of pants. A loan in a pawn shop can be made to a customer who does not have to dedicate the money to a specific item.

Retail stores earn large amounts of money by extending credit to customers. Credit is granted in two ways. First, some stores give credit for a single purchase, such as a TV set or a refrigerator. The store and the customer agree on terms, which can take the shape of monthly payments. Interest rates are set, and a form is completed that outlines the conditions that must be met by the borrower. In this situation, money never changes hands, and the complete transaction is handled on paper.

A second way credit is granted is through a credit card issued by the retail store. Most stores set a dollar limit on their cards, according to the credit worthiness of the customer. Cardholders make purchases in that store and charge it to the card. Once a month they receive a bill stating the amount they owe. They can either pay that amount or carry it over to the next month. If they carry it over, they have to pay interest on the amount owed. When purchases rise to the credit limit, the cardholder cannot charge any more on the card until some of the debt has been paid off.

Customers who carry over their balances from month to month usually end up with large amounts of interest that have to be paid in addition to the cost of the purchases. The retail store finds itself in a win-win situation, just as the pawn shop does. It sets the price on the item in order to make a profit. In addition, it charges high interest rates on the unpaid balance of a bill, which is even more profitable.

Credit Codes

The rate of interest a retail store can charge is established by law. Many retail credit operations are regulated by state laws, because the credit cards are issued by the company in that state. Some companies,

Words to Remember

blue book—a document listing values for certain types of items
brokerage firm—a business that negotiates the sale of stocks, commodities, and securities
finance company—a business that makes small, short-term loans to individual consumers or other businesses
hock—putting an item of value in a pawn shop in exchange for money
pawn shop—a store that loans money on the security of personal property
pawn ticket—a form that contains personal information, the amount of the loan and interest plus the terms agreed upon, and serial numbers of the items being held
publicly held—partly owned by members of the general public who have purchased shares of stock in the company
win-win situation—a condition in which both parties have received one or more advantages

however, are exempted from state laws and follow federal guidelines instead. Those are companies that issue credit cards through a bank. Such credit cards carry the name of the retail store on the card, but they are actually bank cards issued from a financial institution located in another state.

The Consumer Credit Commission administers the credit code of the state of Texas. This code is an outline of the procedures that must be followed, the guidelines that must be followed in granting credit, and the recourse consumers have in the area of credit. The commission resolves consumer complaints that cannot be solved by the retail store and customer.

Retail Employment

Opportunities in retail credit are numerous, and advancement to better jobs is possible. Marketing is a task that every person in a retail operation can perform. In large stores, sales clerks promote the company's credit cards by asking customers who pay in cash or by check if they would be interested in applying for a card. This kind of cross-selling is an important part of building a strong credit customer base.

Other jobs are available in customer service, where employees accept payments of bills, cash checks, resolve questions about bills, and generally maintain the credit function of the store.

In large department stores, much of the credit function is carried out at a central location—called a *credit center*—in each region of the country. At the credit center, employees investigate the worthiness of credit card applicants. Accounting procedures are carried out there, and decisions are also made on problem accounts. Because of the large-scale operations, advancement is easier to achieve at these regional locations.

People interested in careers in retail credit should enjoy working with people. Customer satisfaction should be especially important to them. Since credit functions involve record keeping, employees in this area should enjoy taking care of important details. The ability to operate a computer is essential.

Other Related Industries

Finance companies, such as Allied and Beneficial, offer wholesale and retail credit. Merchants use finance companies to stock merchandise until consumers purchase them, while retail credit is available to consumers for purchasing big-ticket items, such as major appliances. Finance companies borrow funds from commercial banks and sell their own promissory notes directly in the credit market. Some finance companies charge high interest rates to consumers who do not qualify for other forms of credit, such as department store or bank charge cards, and may be considered a high risk for nonpayment. Other finance companies help consumers to secure the funds necessary to purchase the products of their parent manufacturing companies, such as Ford Motor Credit Company.

Insurance companies compete with banks, savings and loans, and credit unions for individual savings, business loans, and residential and commercial mortgages. Further, the policies that insurance companies sell represent long-term investments for the policyholders. Some major insurance companies have even purchased banks and other financial institutions so that they could provide additional banking-related services to their customers.

Many full-service **brokerage firms**, such as Merrill Lynch and Paine Webber, offer a wide range of financial-related products and ser-

Checking for Understanding

1. Why have pawn shops grown in popularity over the years?
2. How is a loan secured from a pawn shop?
3. How is retail credit similar to the loan function of a bank?
4. What are the two methods by which credit is extended by a retail operation?
5. What characteristics are beneficial to persons interested in jobs in pawn shops or in retail credit operations?
6. Discuss how each of the four additional industries mentioned at the end of the assignment is related to traditional financial institutions such as banks and thrifts.

vices, such as the sale of stocks, bonds, and securities. Brokerage services also may be available within a financial institution, either as a nationally known brokerage firm leasing space in the bank or with employees who are specially trained and licensed to sell investments.

Check-cashing stores, such as The Money Box, have become popular with customers who do not have personal checking accounts in local financial institutions. For a fee, check-cashing stores will cash payroll, insurance, and government checks. They also offer a host of other services, including money orders, notary services, Western Union wire transfers, and mailbox rentals.

Summary

Numerous employment opportunities exist in pawn shops, retail credit operations, and other related industries and should continue to increase. Both options have many characteristics common in any type of financial institution. Employees should enjoy working with all types of people, pay attention to detail, and have computer skills.

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MARKETING IN FINANCIAL INSTITUTIONS

ANSWER BOOK/TEACHER'S GUIDE

Marketing Education

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Marketing in Financial Institutions

Answer Book/Teacher's Guide

By

Suzanne G. Faught

With learning activities by

Michelle Walker

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Curriculum Specialist / Suzanne G. Faught
Editor / Teri C. Sperry
Artist / Debra Dionisio
Publishing Technician / Kathryn N. Roberts
Publications Coordinator / Jonathan Griffith
Director, Educational Resources / Mitch Cooper

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COMPLIANCE STATEMENT

TITLE VI, CIVIL RIGHTS ACT OF 1964; THE MODIFIED COURT ORDER, CIVIL ACTION 5281, FEDERAL DISTRICT COURT, EASTERN DISTRICT OF TEXAS, TYLER DIVISION

Reviews of local education agencies pertaining to compliance with Title VI Civil Rights Act of 1964 and with specific requirements of the Modified Court Order, Civil Action No. 5281, Federal District Court, Eastern District of Texas, Tyler Division are conducted periodically by staff representatives of the Texas Education Agency. These reviews cover at least the following policies and practices:

(1) acceptance policies on student transfers from other school districts;

(2) operation of school bus routes or runs on a nonsegregated basis;

(3) nondiscrimination in extracurricular activities and the use of school facilities;

(4) nondiscriminatory practices in the hiring, assigning, promoting, paying, demoting, reassigning, or dismissing of faculty and staff members who work with children;

(5) enrollment and assignment of students without discrimination on the basis of race, color, or national origin;

(6) nondiscriminatory practices relating to the use of a student's first language; and

(7) evidence of published procedures for hearing complaints and grievances.

In addition to conducting reviews, the Texas Education Agency staff representatives check complaints of discrimination made by a citizen or citizens residing in a school district where it is alleged discriminatory practices have occurred or are occurring.

Where a violation of Title VI of the Civil Rights Act is found, the findings are reported to the Office for Civil Rights, Department of Health, Education and Welfare.

If there is a direct violation of the Court Order in Civil Action No. 5281 that cannot be cleared through negotiation, the sanctions required by the Court Order are applied.

TITLE VII, CIVIL RIGHTS ACT OF 1964: EXECUTIVE ORDERS 11246 AND 11375; TITLE IX 1973 EDUCATION AMENDMENTS: REHABILITATION ACT OF 1973 AS AMENDED; 1974 AMENDMENTS TO THE WAGE-HOUR LAW EXPANDING THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967; VIETNAM ERA VETERANS READJUSTMENT ASSISTANCE ACT OF 1972 AS AMENDED IN 1974.

It is the policy of the Texas Education Agency to comply fully with the nondiscrimination provisions of all federal and state laws and regulation by assuring that no person shall be excluded from consideration for recruitment, selection, appointment, training, promotion, retention, or any other personnel action, or be denied any benefits or participation in any programs or activities which it operates on the grounds of race, religion, color, national origin, sex, handicap, age, or veteran status (except where age, sex, or handicap constitute a bona fide occupational qualification necessary to proper and efficient administration). The Texas Education Agency makes positive efforts to employ and advance in employment all protected groups.

Foreword

Marketing in Financial Institutions is one of the new series of EIMC/Educational Resources publications on the skills and tasks required of employees in specific marketing occupations. Unlike previous publications of this type, it illustrates the similarities and working relationships among different financial institutions, such as the Federal Reserve Bank, commercial banks, savings and loans, and credit unions. It also illustrates the training opportunities available in a number of related financial services industries, such as pawn shops and retail credit departments.

The material is presented in ways that will introduce students to information and thought processes that are needed by persons who are moving up the ladder in a career. By answering the questions at the end of each assignment, and by doing selected learning activities from the *Answer Book/Teacher's Guide*, students will begin to get a clearer idea of what is done and why it is done. The activities are designed so that students do not actually have to be employed at a training station but can gain information by research, observation, and discussion with employees and supervisors in banks, savings and loans, and credit unions. Students can develop a variety of the higher-level thinking skills that are now recognized as necessary for success in marketing.

Michelle Walker, a doctoral candidate at the University of North Texas and former high school marketing education teacher-coordinator at Dallas ISD's Business and Management Center, wrote a number of the learning activities for this publication. Her experience as a marketing educator and the new educational approaches she has learned through her advanced studies worked together to result in activities with a more hands-on approach.

The Extension Instruction and Materials Center/Educational Resources of The University of Texas at Austin wishes to acknowledge the members of the 1993–94 Project Advisory Committee, who reviewed the tentative outline and offered suggestions for this and other marketing education publications:

- Betty Helton, McCallum High School, Austin
- Adell Morton, Allen High School, Allen
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- Larry Russell, Clear Lake High School, Houston
- Berry Sullivan, teacher-educator, Southwest Texas State University, San Marcos
- Michelle Walker, doctoral candidate, University of North Texas, Denton

Credit is also due to other members of the Marketing Education Curriculum Advisory Task Force. Initial planning for this and other materials began with the August 1993 meeting of the MECATF group. For 1993–94 they include all the Project Advisory Committee members, plus these marketing educators, who represented their ME districts as curriculum chairpeople: Jerry Gates, Uvalde High School, District 2; Mildred Vannoy, Livingston High School, District 4; Nelda Shipp, Mineola High School, District 6; Bill Bilbruck, Plainview High School, District 8; Juan Rocha, Lake View High School, San Angelo, District 9; and Sandra Telles, Coronado High School, El Paso, District 10.

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Suzanne G. Faught
Marketing Education Curriculum Specialist

Using *Marketing in Financial Institutions* for Independent Study and for Classroom Instruction

Marketing in Financial Institutions focuses on the industry-specific information and skills needed by students who plan to enter, or who may already be receiving, training in a financial institution.

The assignments can be used as the basis for class instruction in specialized programs or for individualized instruction for selected students pursuing careers in financial institutions. Objectives for each assignment are given in the first part of this book. In addition, assignment objectives are applications of the foundation and/or workplace competencies addressed by the Secretary's Commission on Achieving Necessary Skills (SCANS). This information is provided in the crosswalk chart beginning on page 1, with a list of the SCANS Competencies and Skills on page 5.

An answer key provides suggested responses to the "Checking for Understanding" questions based on the content of the assignment. Due to their highly individualized nature, some responses will require teacher judgment.

At the request of marketing education teachers, this answer book/teacher's guide takes a new direction by including sections with additional activities and summative quizzes for each assignment. The teacher may allow the individual student to select the activity or activities that best match his or her interests in the subject area addressed in the assignment. Sets of masters and the correlated answer keys are provided to facilitate this approach. A series of brief quizzes, one for each assignment, provides an alternate method of student assessment.

Assignments and Objectives Correlated with SCANS Competencies

Assignments and Objectives	SCANS Competencies
1: The Financial System	
• Describe the four forms of early exchange.	C-7: Information
• Describe the problems that existed in the banking systems of the colonies before 1791.	C-7: Information; C-15: Systems
• Name the improvements afforded by the two Banks of the United States.	C-5: Information
• Explain why counterfeiting was prevalent in the nineteenth century.	C-7: Information
• List the four major points of the National Bank Act.	C-5: Information
• Describe the weaknesses of the National Bank Act.	C-7: Information
2: The Federal Reserve System	
• Cite the reason for enactment of the Federal Reserve Act.	C-5: Information
• Name the four functions of the Federal Reserve System.	C-5: Information
• Describe the check collection system.	C-15: Systems
• Describe the ways in which the Federal Reserve acts as the government's bank.	C-15: Systems
• Discuss how member banks are supervised.	C-15: Systems
• Explain how the Federal Reserve System tries to control inflation and recession in the economy.	C-7: Information; C-15: Systems
3: The Banking System and Its Structure	
• Describe the four main types of financial institutions.	C-5: Information
• Discuss how a credit union is different from a savings and loan or bank.	C-7: Information
• Explain the governing structure of a bank.	C-15: Systems
• Define the term *charter*.	C-5: Information
• Explain what is meant by a dual banking system.	C-15: Systems
• List at least three ways in which a bank can be classified.	C-5: Information
4: Twentieth-Century Developments in the Banking Industry	
• Describe the events leading up to the stock market crash of 1929.	C-7: Information
• Discuss how the crash forced businesses into bankruptcy and raised the unemployment rate.	C-7: Information
• List the four jobs of the Federal Deposit Insurance Corporation.	C-5: Information
• Describe interest-bearing accounts that emerged in the1960s and after.	C-5: Information
• Explain how interest rates and loans contributed to the S&L crisis of the late 1980s and early 1990s.	C-7: Information

• Discuss the two new federal agencies formed through the Financial Institutions Reform, Recovery, and Enforcement Act.	C-5: Information
5: A Checkless Society	
• Discuss the changing role of cash and checks in our society.	C-7: Information
• Describe the magnitude of check processing in the 1990s.	C-7: Information
• Tell how the Social Security Administration distributes payments through electronic funds transfer systems (EFTS).	C-15: Systems
• Explain bill paying by telephone or computer.	C-15: Systems
• Describe a supermarket debit.	C-15: Systems
• Discuss the uses of the "smart card" concept.	F-10: Thinking Skills
6: Current Trends and the Future of Financial Institutions	
• Describe the movement that is changing banks, thrifts, and credit unions to full-service financial organizations.	C-7: Information
• Identify the drawbacks to greater regulation of the banking industry.	C-7: Information
• Describe the tasks that will be performed by a three-way link of telephone, computer, and television.	C-7: Information
• Explain how new technology will assist older customers who shy away from unfamiliar approaches.	C-7: Information
• List three changes that will occur as financial institutions compete more for customers.	C-7: Information
7: Banking Operations	
• List the four major functions a financial institution provides its customers.	C-5: Information
• Define *demand deposit*.	C-5: Information
• Explain the difference between time deposits and savings accounts.	C-7: Information
• Define *certificate of deposit*.	C-5: Information
• Describe two types of retirement accounts.	C-7: Information
• Explain how savings can occur with a club account.	C-15: Systems
8: Deposit and Paying Functions	
• List the elements of a deposit receipt.	C-5: Information
• Identify the three categories of money on a deposit slip.	C-5: Information
• Describe the three ways a customer may take money out of an account.	C-15: Systems
• Explain why financial institutions cash checks, even though the risks are great.	C-7: Information
• Describe the safeguards and pitfalls when withdrawing from an automatic teller machine.	C-7: Information
9: The Lending Function	
• Explain how money is created through the lending function.	C-7: Information

• List the three areas of lending that are regulated by law.	C-5: Information
• Identify the four separate departments or areas that play a major part in the loan process.	C-5: Information
• Name the two main types of loans.	C-5: Information
• Explain the differences among the three types of secured notes.	C-7: Information
• List the four major classes of loans made by most banks.	C-5: Information
• State the purpose of consumer credit loans, real estate loans, and interbank loans.	C-7: Information
• List the factors that affect the setting of interest rates.	C-5: Information
10: The Investment Trust Function	
• Define a *fiduciary* service.	C-5: Information
• List the five major fiduciary services.	C-5: Information
• Describe the role of a bank's trust function in settling an estate.	C-7: Information
• Explain the differences between testamentary trust, living trust, and institutional trust.	C-15: Systems
• Describe the four main services an agent offers an individual.	C-7: Information
• Discuss the competitive aspects of employee trust funds.	C-7: Information
11: Other Financial Services	
• Describe the process of entering a safe-deposit box.	C-15: Systems
• Identify the conditions under which a cashier's check or certified check may be needed.	F-8: Decision Making
• Describe the process whereby a certified check is issued.	C-15: Systems
• Discuss why banks and other companies compete for bank card customers.	C-7: Information
• Explain how cardholders benefit from the competition.	C-7: Information
• Tell how a company that issues traveler's checks makes money.	C-7: Information
12: Research and Planning	
• Describe the events after World War II that ultimately caused banks to market their products.	C-7: Information
• Discuss the four areas in which databases provide information.	C-5: Information
• Identify types of database information and how the information is used by banks to determine future projects.	C-7: Information
• Explain the need for more bilingual personnel in banking.	C-7: Information
• Tell how changes in the economy cause changes in product and service planning.	F-12: Thinking Skills
13: Advertising and Promotion	
• List the six basic forms of advertising most often used by financial institutions.	C-5: Information

• Identify the different audiences reached by the basic forms of advertising.	C-5: Information
• Explain the advantages of direct-mail advertising.	C-7: Information
• Discuss the difference between credit union promotion and that of other institutions.	C-7: Information
• Describe the move toward concept advertising and its reasons.	C-7: Information
• Explain the cross-selling concept.	C-7: Information
14: Risk Management	
• Discuss the two sides of risk management.	C-7: Information
• Explain how a signature card protects the customer.	C-15: System
• Explain why training in risk management is an ongoing process.	C-7: Information
• List the eight ways in which institutions generally establish internal security.	C-5: Information
15: International Banking	
• List and describe the four common types of international banking.	C-7: Information
• Explain the correspondent banking system.	C-15: Systems
• Describe the growth of U.S. branch banking in foreign countries.	C-7: Information
• Explain a letter of credit.	C-5: Information
16: Preparing for Employment	
• List three personal characteristics required of employees in financial institutions.	F-13, 15, 16, 17: Personal Qualities
• Explain the four methods by which one can become knowledgeable about computers.	C-5: Information
• Discuss courses that can be taken in high school to further learning in the field.	C-5: Information
• Name three ways to remain aware of new advancements and technologies in the field.	C-5: Information
17: Training in a Bank, Credit Union, or Savings and Loan	
• Discuss employment opportunities in the financial services industry.	C-5: Information
• Describe the five factors that influence an institution's success in business.	C-7: Information
• Explain the need for ongoing training as it relates to changes in laws.	F-12: Reasoning
18: Related Financial Industries	
• Discuss the growth and popularity of pawn shops.	C-5: Information
• Describe the process by which a loan is secured from a pawn shop.	C-15: Systems
• Explain how retail credit is similar to the loan function of a bank.	F-12: Reasoning
• Briefly describe the two methods by which credit is extended by a retail operation.	C-15: Systems
• List and describe at least two additional related industries.	C-7: Information

SCANS Competencies and Skills

I. Workplace Competencies

Resources
- **C-1** Allocates Time
- **C-2** Allocates Money
- **C-3** Allocates Material and Facility Resources
- **C-4** Allocates Human Resources

Information
- **C-5** Acquires and Evaluates Information
- **C-6** Organizes and Maintains Information
- **C-7** Interprets and Communicates Information
- **C-8** Uses Computers to Process Information

Interpersonal Skills
- **C-9** Participates as a Member of a Team
- **C-10** Teaches Others
- **C-11** Serves Clients/Customers
- **C-12** Exercises Leadership
- **C-13** Negotiates to Arrive at a Decision
- **C-14** Works with Cultural Diversity

Systems
- **C-15** Understands Systems
- **C-16** Monitors and Corrects Performance
- **C-17** Improves and Designs Systems

Technology
- **C-18** Selects Technology
- **C-19** Applies Technology to Task
- **C-20** Maintains and Troubleshoots Technology

II. Foundation Skills

Basic Skills
- **F-1** Reading
- **F-2** Writing
- **F-3** Arithmetic
- **F-4** Mathematics
- **F-5** Listening
- **F-6** Speaking

Thinking Skills
- **F-7** Creative Thinking
- **F-8** Decision Making
- **F-9** Problem Solving
- **F-10** Seeing Things in the Mind's Eye
- **F-11** Knowing How to Learn
- **F-12** Reasoning

Personal Qualities
- **F-13** Responsibility
- **F-14** Self-Esteem
- **F-15** Sociability
- **F-16** Self-Management
- **F-17** Integrity/Honesty

Reference: The Secretary's Commission on Achieving Necessary Skills, U.S. Department of Labor. *Skills and Tasks for Jobs: A SCANS Report for America 2000*, Tables 1-1 and 1-2, pp. 1-4 and 1-5, and Table 2-1, pp. 2-4 through 2-10. U.S. Government Printing Office, Superintendent of Documents, Mail Stop: SSOP, Washington, DC 20402-9328.

Answers to "Checking for Understanding"

Assignment 1: The Financial System

1. *List and describe the four main forms of early exchange.*

   Bartering is the trading of one item for another. *Commodity money* set a specific value on certain items, which the community agreed upon. *Representative money* represented items deposited with a trusted person and required a receipt. *Credit money* is the paper money and coins that are receipts for the gold and silver on deposit with a government.

2. *What problems existed in the banking system of the colonies before 1791?*

   Before 1791 banks often failed because there was no government regulation. Not much gold was available as a basis for a healthy bank system, and there was no standard paper currency.

3. *What kinds of improvements did the two Banks of the United States provide?*

   Both Banks of the United States were successfully run. They were the first banks to be fiscal agents for the government. They could make loans to the treasury and to private individuals. They could also disburse and collect notes.

4. *Why was counterfeiting so prevalent in the nineteenth century?*

   Counterfeiting was so prevalent in the nineteenth century because there were thousands of banks, each issuing their own coins and notes, which could be copied easily.

5. *What were the four major points of the National Bank Act?*

   The four major points of the National Bank Act were that it created a system of national banks; the office of Comptroller of the Currency was created; a uniform currency was authorized; and a system of required reserves was established.

6. *What were the weaknesses of the National Bank Act?*

   The Act's weaknesses were that no system existed for the speedy presentation and collection of checks, the amount of money in circulation was not keyed to the best interests of the United States, and the act was too strict.

Assignment 2: The Federal Reserve System

1. *Why was the Federal Reserve Act passed by Congress?*

   The old National Bank Act of 1863 was unresponsive to the demands of an expanding society. People were losing faith in the system (*this bridges information in Assignment One with that in the beginning of Two)* and needed legislation to address the problems of a growing population, thriving economy, and changing lifestyle.

2. *What are the four basic functions of the Federal Reserve System?*

   The four basic functions of the Federal Reserve System are that it:
   - serves as a banker's bank
   - serves as the government's bank
   - supervises member banks
   - controls the country's money supply

3. *How does the check collection system work?*

The check collection system comes into action every time a check is written. The original check is sent to the payee's bank. That bank sends it to the Federal Reserve, which collects the check and presents it for payment at the bank on which it was drawn.

4. *In what ways does the Fed act as the government's bank?*

As the government's bank, the Federal Reserve keeps the accounts of the government, just as a bank would for a customer. As the government spends money on projects, it writes checks on accounts it has under the Federal Reserve system. The Federal Reserve keeps statements and sends regular statements to the government.

5. *How does the Fed supervise member banks?*

Member banks are supervised through regulations issued by the Federal Reserve. Members are also scrutinized regularly by bank examiners to make sure the financial health of the bank is sound.

6. *How does the Federal Reserve control inflation, recession, and unemployment in the economy?*

The Federal Reserve controls inflation, unemployment, and recession by attempting to make sure the total amount of money in circulation is correct—not too much or too little. The Federal Reserve tries to keep the flow of spending in line with near-capacity production by regulating the interest rate on borrowed money.

Assignment 3: The Banking System and Its Structure

1. *What are the four main types of financial institutions?*

The four main types of financial institutions are savings banks, savings and loan associations, credit unions, and commercial banks.

2. *In what ways is a credit union different from a savings and loan association or a bank?*

A credit union differs from other financial institutions in that it is nonprofit. To participate in a credit union, persons must qualify by sharing a specific thing in common with all others in the credit union.

3. *What is the governing structure of a bank?*

Banks have stockholders and a board of directors. The board appoints officers who run the bank on behalf of the board.

4. *Who grants charters within this country's dual banking system?*

In this country, banks may be chartered by either the federal government or a state government.

5. *What are three ways in which a bank can be classified?*

A bank can be classified according to its charter, its membership in the Federal Reserve system, and its membership in the Federal Deposit Insurance Corporation.

Assignment 4: Twentieth-Century Developments in the Banking Industry

1. *What were the events leading up to the stock market crash?*

   The events leading up to the stock market crash of 1929 were as follows:
   - Banks were allowed to open with very little initial capital.
   - Banks competed for customers by offering high interest rates on checking accounts.
   - Depositors who wanted to play the stock market could borrow from the bank to do so.
   - The value of stocks declined.

2. *How did the crash force businesses into bankruptcy and raise the unemployment rate?*

   The crash caused businesses to fail because they were unable to pay back their loans, especially on the credit they had received to purchase stocks. To save money and make the payroll, they fired many of their employees. Many workers were without jobs, and the unemployment rate rose to 25 percent.

3. *What are the four jobs of the Federal Deposit Insurance Corporation?*

   The four jobs of the FDIC are to:
   - set standards for member banks
   - examine banks to make sure they comply with the standards
   - take action to prevent troubled banks from failing
   - pay depositors if a member bank fails

4. *Name four types of interest-bearing accounts that emerged after 1960.*

   Interest-bearing accounts that emerged after 1960 include:
   - certificates of deposit
   - money market funds
   - NOW accounts
   - money market deposit accounts

5. *How did interest rates on savings accounts and on loans affect the savings and loan crisis that began in the late 1980s?*

   To attract new customers, savings and loan associations paid high rates on new accounts. Long-term mortgages, granted on a fixed-rate basis, had much lower interest rates. More money was going out than coming in. S&Ls invested in junk bonds to generate more funds, a risky procedure. By the early 1990s, these bonds began to lose value.

6. *What two new federal agencies were created to handle the S&L and bank crisis? Discuss their roles.*

   The two federal agencies created to handle the crisis were the Office of Thrift Supervision and the Resolution Trust Corporation (RTC). The Office of Thrift Supervision regulated all remaining S&Ls, and the RTC dealt with the remaining assets of the institutions.

Assignment 5: A Checkless Society

1. *How is the role of writing checks and carrying cash changing?*

   Through the introduction of the electronic funds transfer system (EFTS), a new method of payment has been devised that is simple to use. It was thought that EFTS would pave the way to a checkless, cashless society, but the new system is merely reducing the numbers of checks and amount of cash carried.

2. *What is the magnitude of check cashing in our society, and what is the cost?*

   In our society, about 100 million checks are written daily, and the number is growing. The personnel and technology needed to process these checks is growing, and the cost is more than $20 million annually.

3. *Through the use of electronic funds transfer system, how does the Social Security Administration distribute its monthly payments?*

   The Social Security Administration has convinced many of its recipients to allow the deposit of their monthly checks directly into their bank accounts. The process eliminates the need to write checks and send them through the mail, cutting costs and saving money.

4. *How does bill paying by telephone or computer work?*

   Bill paying by telephone or computer can be arranged through the person's financial institution. By keying in a code and amount, the bank identifies the customer, the bill he wishes to pay, and the amount. Funds are transferred directly from the person's account to the recipient.

5. *How does a supermarket debit differ from a credit card purchase?*

   A supermarket debit can be made at the check-out line when food is purchased. Funds are immediately transferred to the supermarket from the purchaser's bank account, and the transaction is completed. It differs from a credit card purchase in that no bill is mailed at the end of the month, because the funds have already been transferred at the point of purchase.

6. *Create a situation in which you have a smart card, and explain its use for your purchases.*

   This could have many applications. Basically, the person must take his or her smart card to the ATM and transfer an amount of money onto the computer chip embedded in the plastic. From there he or she makes purchases at various stores, reducing the balance on the card.

Assignment 6: Current Trends and the Future of Financial Institutions

1. *How does a full-service financial organization differ from a traditional bank?*

   A full-service financial organization is a bank that owns brokerage firms and offers its own mutual funds, savings and loan associations, and computer services that relate to finances, instead of just offering the checking and savings accounts provided by traditional banks.

2. *List at least two changes that will occur as the result of more regulation of the banking industry.*

   Changes that will occur as the result of more regulation of the banking industry include the following:
   - Financial institutions will have to provide more consumer information.
   - They will have to meet the financial services needs of people with moderate and low incomes.

3. *How will three-way links aid customers with their finances in the future?*

   The three-way link of computers, television sets, and telephones will aid customers because they will be able to do their banking at home. People will be able to talk directly with the necessary personnel in banks in this way.

4. *What financial services have older customers begun to find the most appealing?*

   Older customers are finding new areas in which to invest their money, such as the stock market and mutual funds. Now they can use the bank, instead of brokerage firms, to make these investments.

5. *How will competition change the way financial institutions do business?*

   Competition will change the way financial institutions do business by offering more sales training and incentives to employees for good sales work. Banks will become more aggressive in seeking customers, and more branches will be built in moderate- and low-income areas.

Assignment 7: Banking Operations

1. *List the four major functions a financial institution offers its customers.*

   The four major functions of a financial institution are:
   - deposit
   - paying
   - lending
   - trust

2. *Why are checking accounts also called demand deposits?*

   They are called demand deposits because the funds held in them must be released to the customer on demand.

3. *What is the difference between a time deposit and savings account?*

   A time deposit has a specific maturity date of at least seven days from the date of deposit. If the time deposit is withdrawn before maturity, there is a penalty for early withdrawal. A savings account does not have a maturity date, and deposits and withdrawals can be made often over many years.

4. *Briefly describe the two types of retirement accounts.*

   Two types of retirement accounts are Individual Retirement Accounts and Keogh Accounts. IRAs were created for workers employed by companies, and Keogh accounts are for the self-employed. Each has certain restrictions, but in general, funds cannot be withdrawn until retirement age is reached.

5. *How does a person save with a club account?*

   Club accounts are established so that people can save for special purposes, such as vacations. They sign an agreement with the bank to set aside a specific amount of money each week or month.

Assignment 8: Deposit and Paying Functions

1. *List the three kinds of information that should be printed on a deposit receipt.*

   A deposit receipt should show the date of the transaction, the amount of money deposited, and the account number into which the money is placed.

2. *How is money separated on a deposit slip?*

   Money is separated by currency, coin, and checks.

3. *What are the three ways in which a customer may take money out of an account?*

   The three ways in which a customer may take money out of an account are by completing a withdrawal slip, writing a check, and using an ATM machine.

4. *Why do financial institutions cash checks, even though the risks are great?*

   Financial institutions cash checks, even though there are risks, because they support the concept of customer service. As one institution competes with another for customers, the more services that are offered, the greater the possibility of attracting more depositors.

5. *What are the safeguards and pitfalls of withdrawing money from an ATM?*

   - If the card is reported stolen, the ATM keeps the card.
   - If the card user makes several unsuccessful tries when entering the PIN, the ATM can keep the card.
   - If the card is inserted and the correct PIN is entered, the ATM can authorize withdrawals only if there is enough money in the account.

Assignment 9: The Lending Function

1. *How is money created through the lending function?*

   Money is created by the lending process through a cycle. When a person borrows money and it is deposited into his or her bank account, a portion of the deposit can be lent, under law, to someone else. The next person deposits his or her borrowed money in his or her account, and a portion of it is lent to the next person. In this way, money is created.

2. *Which three areas of lending are regulated by law?*

   The three areas of lending that are regulated by law are:
   - the maximum amount that may be loaned to any borrower
   - the maximum amount of interest that may be charged
   - the size and maturity of certain types of loans

3. *What are the four separate departments or areas that play a major part in the loan process?*

   The four separate departments or areas that play a major part in the loan process are:
   - the board of directors
   - loan officers
   - the note department
   - the credit department

4. *List and define the two main types of loans.*

   The two main types of loans are secured and unsecured. *Secured* means the loan is backed by some type of asset pledged by the borrower. *Unsecured* means that no collateral has been pledged.

5. *What are the differences among the three types of secured notes?*

   The three types of secured notes are chattel mortgages, collateral notes, and cosigner. Chattel mortgages give the title of tangible personal property to the lender until the loan is paid off.

Collateral notes are secured with intangible real property, such as stocks or insurance policies. When a loan is cosigned, it means someone else besides the borrower pledges that the amount will be repaid.

6. *What are the four major classes of loans made by most banks?*

   The four major classes of loans made by most banks are:
   - commercial loans
   - consumer credit loans, sometimes called installment loans
   - real estate loans
   - interbank loans

7. *Explain the purpose of consumer credit loans, real estate loans, and interbank loans.*

   Consumer credit loans, also known as installment loans, are granted to individuals to buy items on time. The amounts of these loans are smaller than in commercial loans, and the interest rate is higher. Real estate loans are granted so that people can buy houses. The dollar amount is usually high, and payment is extended over many years. Interbank loans are made so that a smaller bank can borrow from a larger one. In that way the borrower can lend more money than it otherwise could.

8. *How are interest rates set?*

   Interest rates are set by law. Taken into consideration is the financial stability of the borrower, his ability to repay the money, the overall demand for money, and the type of credit requested.

Assignment 10: The Investment Trust Function

1. *What are the five major fiduciary services offered by a financial institution?*

   The five major fiduciary services are:
   - settling estates
   - administering trusts and guardianships
   - agency services
   - administering employee and retirement plans
   - assisting in estate planning and tax counseling

2. *How does a bank act as a trustee to settle an estate?*

   A bank acts as a trustee to settle an estate by being named as such by the person who died. The person's will has certain instructions that the bank must carry out. It must inventory the decedent's possessions, set a value on the estate, and file and pay all tax returns.

3. *What are the differences among testamentary trusts, living trusts, and institutional trusts?*

   A testamentary trust is created under the terms of a will. The person who died established a trust to be managed by the bank. The bank manages the assets and pays out money to beneficiaries. A living trust does not require a deceased person. Certain property is transferred to the financial institution so that it can manage that property toward a stated goal. An institutional trust is formed with a hospital, university, or charitable organization. It turns over cash and securities to the financial institution that will manage the investments. Earnings are kept in the trust and not distributed.

4. *What are the four main services an agent offers an individual?*

   Four main services are offered to an individual from an agent:
   - *Safekeeping*—The agent keeps property, such as stock certificates, safely within the confines of a bank.
   - *Custodian services*—The bank not only holds the property but also can buy and sell other property.
   - *Managing agent*—The agent gives the owners of the property advice and information, collects rents, pays taxes, and provides for upkeep.
   - *Escrow agent*—The bank holds property for two parties until certain events occur.

5. *What are employee trust funds, and why are they so competitive?*

   Employee trust funds are created by companies because of union negotiations, fringe benefit packages, or for profit sharing. The financial institution must invest the money it has in the trust and make it grow. The institution with the best record of growth is the one that gets all the business. The more money a bank has on deposit, the more profit it can make.

Assignment 11: Other Financial Services

1. *How does a person gain access to his or her safe-deposit box?*

   A customer gains access to a safe-deposit box by signing a card. The signature is checked against an original card to verify identity. Then the person gives a key to the teller. That key, along with another held by the teller, opens a small door. Behind it is the safe-deposit box.

2. *Under what conditions would a cashier's check or certified check be needed?*

   A cashier's check or certified check would be needed to make a special cash transaction, such as the purchase of a car or other unusual item where the money is guaranteed by the bank to reach the seller.

3. *How is a certified check issued?*

   A certified check is issued by a bank. The customer writes out the check as he or she normally would and then presents it to the teller for certification. The check is stamped, marked, and possibly perforated for security purposes, and then given to the customer. At the point of purchase, the check is given to the seller.

4. *Why do banks and other companies compete for credit card customers?*

   Banks and other companies compete for credit card customers because it is a very profitable business. They can charge high interest rates on unpaid balances of customers' accounts each month and realize great profits.

5. *How do cardholders benefit from the competition among issuing institutions?*

   Cardholders get extra advantages at little or no cost, such as emergency cash, travel insurance, and buyer protection programs.

6. *How does a company that issues traveler's checks make money from them?*

   A company that issues traveler's checks makes money from the amount of uncashed checks it holds at any given time. In a company that sells billions of dollars in checks, not all of those will be cashed on the same day. The money not cashed is held by the company and can be invested for the day. When a billion dollars can be invested, one day can be very profitable.

Assignment 12: Research and Planning

1. *What caused banks to begin marketing their products and services following World War II?*

   Banks operated as usual, even though consumers wanted more. They wanted services and consideration. When the banks failed to provide what consumers needed, they took their money elsewhere. Thrifts and credit unions benefited by providing what banks would not. When banks realized what had happened, they had to market their products to recapture the market they had lost.

2. *In what four main areas do databases provide information?*

   Databases give information in four main areas:
   - They define the type of consumer in terms of jobs they hold, level of education, and ethnicity. They determine how old these customers are, how much money they earn, and what their interests are.
   - They estimate the potential their institution would have to acquire more of the market share.
   - They project how much success the institution would have in introducing their products and services.
   - They target the growth areas in a city.

3. *How is database information used to determine future projects?*

   With information from the databases, an institution studies the degree of success it would have in an area, considering the products and services it has to offer. It tries to identify the services with the greatest appeal to a specific area and estimates the cost of doing so.

4. *Why is there a growing need for bilingual personnel?*

   There is a growing need for bilingual personnel because institutions are moving into communities not traditionally inhabited by them before. Federal law has required institutions to offer more to lower-income citizens. Many of these communities are inhabited by persons who speak only Spanish or other languages. English is most often their second language. When branches open in these areas, bilingual personnel are essential.

5. *What changes might a bank make in the products and services it offers if the economy is weak?*

   In a weak economy, a bank may wish to provide services and products that customers may not want in a more healthy financial environment. When interest rates are low, many people want home or business loans. In times when rates are higher, the need is the same, but the ability to pay higher rates may not be present.

Assignment 13: Advertising and Promotion

1. *List the six basic types of advertising most often used by financial institutions.*

   The six basic types of advertising most often used by financial institutions are:
   - television
   - radio
   - newspapers
   - magazines and trade publications
   - billboards
   - direct mail

2. *For each form of advertising, what is the basic audience?*

   The audiences vary. Television reaches the most people. Radio advertising, in the traffic rush hours, is keyed to commuters. Next to television, newspapers reach the greatest number of people. Magazines and trade publications target an audience with more specific interests. Billboard exposure will appeal to people in the community surrounding it. Direct mail targets a certain area on a high-sell basis.

3. *What are the advantages of direct-mail advertising?*

   Direct-mail advertising can target a certain area with a particular product or service the institution thinks will be well received in that area. Institutions believe that direct mail is an efficient use of marketing and advertising dollars, a method that provides more return on their money.

4. *How do credit unions promote their services differently from other financial institutions?*

   Credit unions approach marketing from a different perspective because they do not have customers. Instead, every person who does business with them is a part owner of the credit union. They use newsletters to promote existing products and services to their owners and also to offer new ones. Credit unions target their promotion to the select group of people who are not members but could be.

5. *How is concept advertising of financial institutions replacing other forms?*

   Total concept advertising promotes the complete business instead of specific products and services. Since most financial institutions offer similar products and services, advertising focuses on the total institution, not just a part.

6. *How does cross-selling work?*

   Cross-selling uses the customer base of one company to attract new business in another. When an institution owns several companies, it can cross-sell in this way. When a bank employee carries out a service for a customer, he or she might recommend another service that will make that person's banking experience easier. Therefore, cross-selling can be carried out from company to company or simply within the same business establishment.

Assignment 14: Risk Management

1. *What are the two sides of risk management?*

   The two sides of risk management are internal and external. Employees are trained to protect against dishonesty, fraud, and other criminal acts from the public in external risk management. Internally, banks protect against wrongdoing inside the organization by taking steps to control operations.

2. *How does a signature card protect the customer?*

   A signature card is kept on each consumer with an account at the institution. Each time business is transacted, the signature on file is compared to the one being offered to make sure it is the same.

3. *Why is training in risk management an ongoing process?*

   Training in risk management is an ongoing process because the type of criminal activity is always changing. New schemes are developed as soon as the bank catches on to the old ones. Personnel must be able to identify current criminal activity.

4. *What are eight ways in which institutions can establish internal security?*

Ways in which institutions can establish internal security include:

- mandatory vacations
- dual control of work
- computer security
- duty rotation in the department
- unannounced cash counts
- use of prenumbered forms
- use of cameras and alarm systems
- efficiency controls

Assignment 15: International Banking

1. *What are the four common types of international banking?*

The four common types of international banking are:

- basic service (exchange of currency)
- commercial banks that offer services through wire transfers and the issuance of checks
- banks that promote international trade to help U.S. companies finance overseas trade
- banks that seek new business by lending money to foreign-based companies

2. *How does a correspondent banking system work?*

In a correspondent banking arrangement, a bank in one country agrees to perform certain services for a bank in another country for a fee.

3. *How has branch banking in foreign countries emerged?*

Branch banking in foreign countries has grown from seven branches in 1947 to many thousands today. By 1993, Citicorp had an international network including 2,000 offices in 93 foreign countries.

4. *For what purpose is a letter of credit used?*

A letter of credit, issued by a bank, guarantees that, as long as the agreed-upon terms are met, a seller will be paid and a buyer will receive the goods ordered.

Assignment 16: Preparing for Employment

1. *List three personal characteristics necessary for a successful career in financial services marketing.*

Personal characteristics necessary for success in the field include:

- attention to detail
- honesty
- positive attitude toward working with people

2. *In what four ways can knowledge of computers be gained?*

A knowledge of computers can be gained by:

- knowing the keyboard
- taking as many computer classes as possible
- learning computer applications
- learning a variety of computer programs

3. *What courses can be taken in high school to further one's education in financial services?*

Courses that can be taken in high school to learn more about financial services include those in accounting, bookkeeping, communications, advertising, business, and economics.

4. *How can one keep current on the advances and new technologies in the field?*

   The way to keep current on the latest advancements and technologies in the field is to make learning a lifetime project. Reading professional journals, taking continuing education classes, and attending professional conferences are three important methods of keeping updated in the field.

Assignment 17: Training in a Bank, Credit Union, or Savings and Loan

1. *What kind of employment opportunities exist in the financial services industry?*

   Many employment opportunities exist in financial services. Those considering jobs in the field can choose from banks, thrifts, credit unions, and savings banks. Employment in small and large operations is open, and the departments within the company are varied as well.

2. *What five factors influence an institution's success in business?*

   The factors that influence an institution's success include:
   - employee hiring skills
   - excellent customer service
   - willingness to change with the times
   - development of new skills
   - ongoing training programs

3. *Explain why it is important to have ongoing training in the areas of federal and state laws and regulations.*

   Ongoing training is especially important in the areas of federal and state laws because they are changed and amended often. New regulations mean different ways of doing business. As the needs of consumers change, so do the laws, since laws respond to human conditions.

Assignment 18: Related Financial Industries

1. *Why have pawn shops grown in popularity over the years?*

   Pawn shops are growing in popularity as an alternative to borrowing money from a more conventional financial institution. These are small loans, usually under $2,000.

2. *How is a loan secured from a pawn shop?*

   The process of getting a loan is simple. A person brings an item of value to the pawn shop with the intention of securing a loan. The amount is agreed upon, and forms are filled out in triplicate. The person must provide some sort of identification. He or she gets the money and has a set amount of time to retrieve the item by repaying the loan plus interest.

3. *How is retail credit similar to the loan function of a bank?*

   Retail credit is similar to the loan function of a bank in that credit is granted to customers for the purchase of certain goods and services.

4. *What are the two methods by which credit is extended by a retail operation?*

   Retail operations extend credit in two ways. First, some stores extend credit for a single large purchase, such as an appliance, and expect monthly payments on the loan. The other way is through the use of credit cards, which basically loan money to consumers for specific purchases and allow repayment over a period of time.

5. *What characteristics are beneficial to persons interested in jobs in pawn shops or in retail credit operations?*

   People interested in employment in pawn shops and in retail credit must be able to use computers and maintain records. They must also enjoy working with people and relating to the public.

6. *Discuss how each of the four additional industries mentioned at the end of the assignment is related to traditional financial institutions such as banks and thrifts.*

   - *Finance companies* borrow funds from commercial banks and sell their own promissory notes directly in the credit market. They charge interest on the loans they make, just as traditional financial institutions do.
   - *Insurance companies* compete with traditional financial institutions for individual savings, business loans, and residential and commercial mortgages. If they own a financial institution, they can provide additional banking-related services to their customers.
   - *Brokerage firms* sell stock, bonds, and securities and may be available within a financial institution.
   - For a fee, *check-cashing stores* will cash payroll, insurance, and government checks. They also offer traditional financial services such as money orders and notary services.

Learning Activities

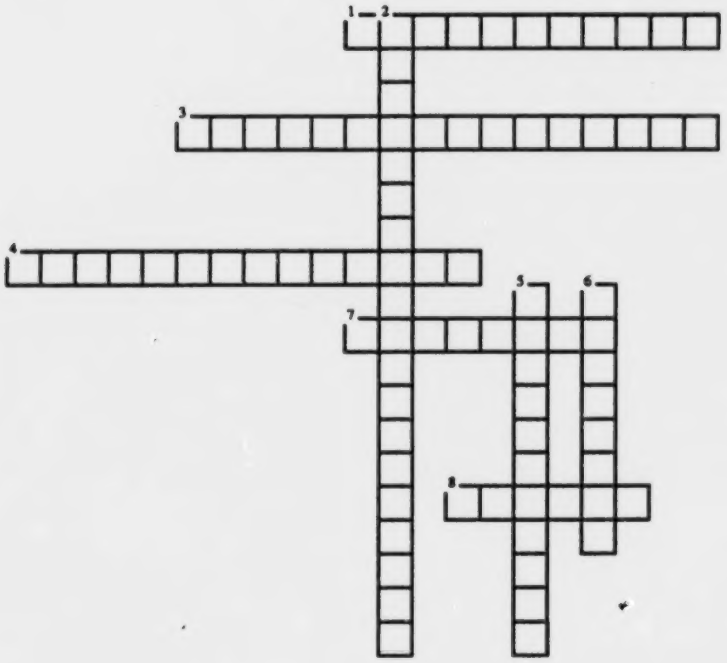
Learning Activity 1
Words to Remember

ASSIGNMENT 1
The Financial System

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

1. The paper money and coins that are receipts for the gold and silver on deposit with the government
3. Common money accepted by all parties
4. Items that were assigned specific values and could be exchanged for items of equal value
7. A promissory note issued by a bank, payable to the bearer on demand without interest and acceptable as money
8. The trading of one item of value for another

DOWN

2. Receipt for items left on deposit with a trusted person in the community; could be traded for desired items
5. Dishonestly reproduced and used as the genuine item
6. Money that cannot be spent by an institution but must remain as protection to the customer

Learning Activity 2
Creating a Financial Services Portfolio

ASSIGNMENT 1
The Financial System

Objective: To collect and organize information

Background: To stay up-to-date with current industry trends, professionals in finance-related businesses read articles and other information. They might save these important items in a pocket folder or portfolio.

Instructions: You are to begin collecting and organizing a financial services portfolio consisting of articles about this and all other assignments in this book; notes from videos, tours, and guest lecturers; brochures and pamphlets collected from financial services businesses; and any assigned research reports. You are to update your portfolio weekly and keep the items organized so that you can find what you will need to complete later assignments. Once you have five items in your portfolio and an organization system established, explain the contents of your portfolio to your instructor.

Learning Activity 3
Overview of Industry

ASSIGNMENT 1
The Financial System

Objective: To gain an insight into various aspects of the financial services industry

Background: Employees of financial institutions need to understand how to process debit and credit card transactions, to facilitate customer identification, to handle cash, and to identify counterfeit currency. Even though these topics are addressed in later assignments, students who are already receiving on-the-job training need this information as early in their training as possible.

Instructions: Working individually or in small groups, complete one or more of the modules of *The Cashier* (1984), a filmstrip/workbook resource by Thomas A. Hephner that is available from Glencoe Publishers. The module content and activities in the workbook complement the filmstrip. Consult with your instructor to determine which modules and related workbook activities are to be completed and the timeframe for completion. Submit the activities to your instructor. When they are returned to you, add them to your Financial Services Portfolio.

Learning Activity 1
Words to Remember

ASSIGNMENT 2
The Federal Reserve System

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

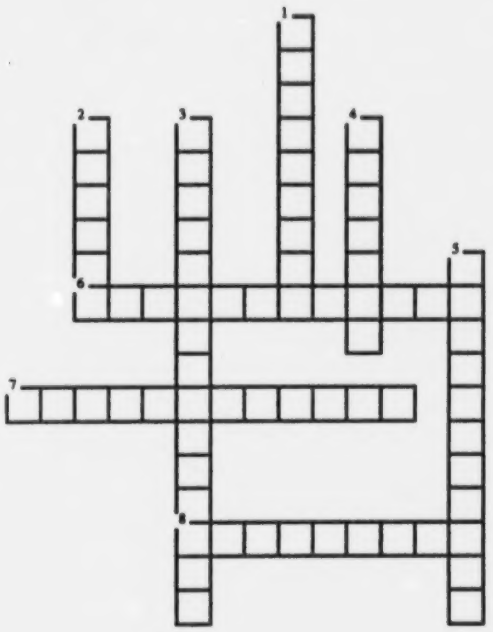
Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.

ACROSS

6. A level of interest paid by member banks when borrowing money from the Federal Reserve
7. Involuntary idleness of workers
8. An economic condition in which prices rise

DOWN

1. An economic condition in which income, employment, and production begin to decline
2. A shortened form of saying "the Federal Reserve"
3. A service provided by the Federal Reserve to its member banks
4. Used by the Federal Reserve to transfer information, funds, and securities throughout the country
5. Local institutions that buy stock in their district's Federal Reserve Bank



Learning Activity 2
Field Trip

ASSIGNMENT 2
The Federal Reserve System

Objective: To visit one of the Federal Reserve banks

Background: If you are close enough to one of the Federal Reserve banks, a field trip would provide you with an insight into its purposes and operations. Each Federal Reserve bank has a video presentation and numerous materials that can supplement the tour.

Instructions: Using the questions below as a starting point, create additional questions to be answered by the tour guide, from the video presentation or printed materials, or from your observations during the field trip. Upon your return to the classroom, prepare and submit to your instructor a one-page summary of your trip to the Federal Reserve Bank. When the summary is returned to you, add it to your Financial Services Portfolio.

Possible Questions—Federal Reserve Field Trip

- What types of security measures are involved?
- What is the approximate dollar volume of checks and cash handled daily?
- What are the various departments within the Federal Reserve, and what are their functions?
- Briefly explain how the Federal Reserve system works.
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-
-
-

Learning Activity 3
Applying Geography Concepts

ASSIGNMENT 2
The Federal Reserve System

Objective: To identify and label the Federal Reserve districts and bank locations on a blank map of the United States

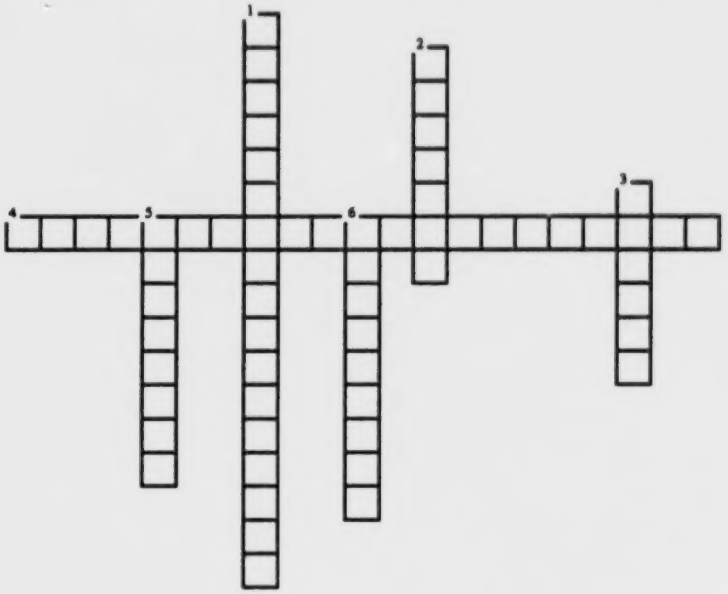
Background: The Federal Reserve bank system is a major factor in the day-to-day operation of financial institutions. Employees need to know the twelve Federal Reserve districts, both by location on the map and by name/number.

Instructions: Using the blank map of the United States provided below and referring to the map provided in the assignment, you are to label the Federal Reserve districts and their bank locations. Compare your map with the one in the assignment to self-correct, and then submit this activity to your instructor. When it is returned to you, add this activity to your Financial Services Portfolio.

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

4. Membership held only by people who have a link to the common bond shared by all other members of that union

DOWN

1. U.S. system that allows banks to be chartered either by the federal government or by the state government
2. A document that sets down the rules by which a business operates and grants permission for its operation
3. Another term for savings and loan
5. Money paid by a financial institution in exchange for using the customer's savings for its own investments
6. Not operating solely for the purpose of making money for the owner

Learning Activity 2
Visualizing the Financial Institution

ASSIGNMENT 3
The Banking System and Its Structure

Objective: To more clearly visualize the organization of a financial institution by sketching an organization chart

Background: In order to more clearly understand your training position and how your work is interrelated to the work of those around you, an organization chart is a useful tool. Many financial institutions can provide you with a copy of their organization charts, but it may include only the positions, not their names. If your financial institution does not have an organization chart available for your use, you can develop one using the state-adopted textbook for marketing education.

Instructions: Using information gathered from printed materials from your training station, interviews with co-workers, or other sources, sketch and label an organization chart for the financial institution in which you are training. Your organization chart should indicate all major divisions within your financial institution. If you are not receiving on-the-job training, prepare an organization chart for the financial institution of your choice. Submit your organization chart to your instructor. When it is returned to you, add the chart to your Financial Services Portfolio.

Learning Activity 3
Interviewing a Co-worker

ASSIGNMENT 3
The Banking System and Its Structure

Objective: To more clearly understand the structure of a financial institution

Background: The training station in which you are receiving your on-the-job work experiences is probably one of the three major types of financial institutions—a bank, savings and loan, or credit union. While these institutions have a number of similar characteristics, they are also different in some ways.

Instructions: Arrange to interview your immediate supervisor or other long-time employee of the financial institution in which you are training. Develop a list of questions, using the ones below as a starting point. After the interview, submit a one-page summary to your instructor. When it is returned to you, add the summary to your Financial Services Portfolio.

Possible Topics

- How is your financial institution classified:
  - by type of charter?
  - by membership in the Federal Reserve System?
  - by membership in the FDIC?
- What are the three most popular types of deposits your financial institution accepts?
- Is this location a branch that is part of a corporate chain of financial institutions, a branch of a locally owned institution, or a single, stand-alone institution?
- Is your financial institution active in international banking? If so, what services does it provide to its customers?

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

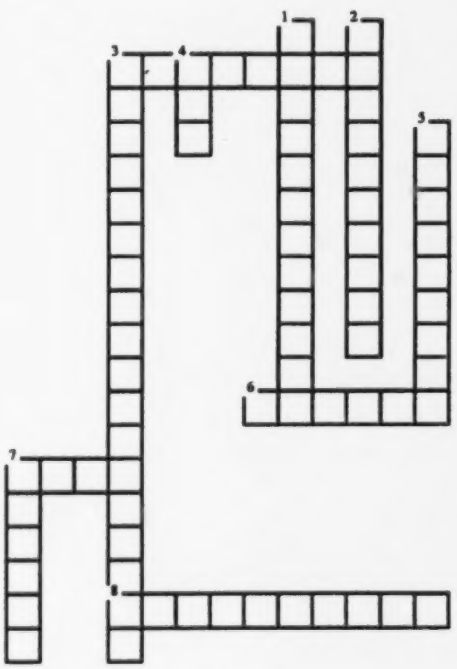
Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.

ACROSS

3. Lender owns the property until the loan amount is fully repaid
6. Certificates denoting partial ownership of a corporation
7. Abbreviation for the Federal Deposit Insurance Corporation; created to protect the funds of depositors
8. An account that pays interest on the cash on deposit in bank checking accounts

DOWN

1. Allows 90 percent of the purchase price of stock to be financed through bank loans or directly by brokers
2. Land and buildings
3. An account for those with less than $100,000 to invest that pays higher interest rates than bank accounts
4. The Resolution Trust Corporation, a federal agency that deals with insolvent thrifts
5. Securities of high-risk companies; usually pay high yields
7. Abbreviation for Financial Institutions Reform, Recovery, and Enforcement Act



Learning Activity 2
Viewing/Summarizing a Video Program

ASSIGNMENT 4
Twentieth-Century Developments in the Banking Industry

Objective: To view finance-related programs, summarizing and answering questions

Background: To stay up-to-date with current industry trends, professionals in finance-related businesses watch CNN's *Moneyline* and *World Today*, CNBC's *Money Tonight* and *Today's Business*, PBS's *Wall Street Week*, and other finance-related programs.

Instructions: After consulting with your instructor, write a note to your high school librarian, requesting that one or more of the above programs be videotaped. Upon receipt of the videotape, view the program, complete the following information/questions, and submit your responses to your instructor. When they are returned to you, add these materials to your Financial Services Portfolio.

Video Information/Questions

- Name of program viewed:

- Five-sentence summary:

- What conclusions might be drawn about the significant events mentioned in the program?

- What potential problem situations in the banking/finance industry are occurring presently?

- What are the financial experts suggesting as possible solutions?

Learning Activity 3
Requesting Information

ASSIGNMENT 4
Twentieth-Century Developments in the Banking Industry

Objective: To write a letter requesting information about the Federal Deposit Insurance Corporation (FDIC)

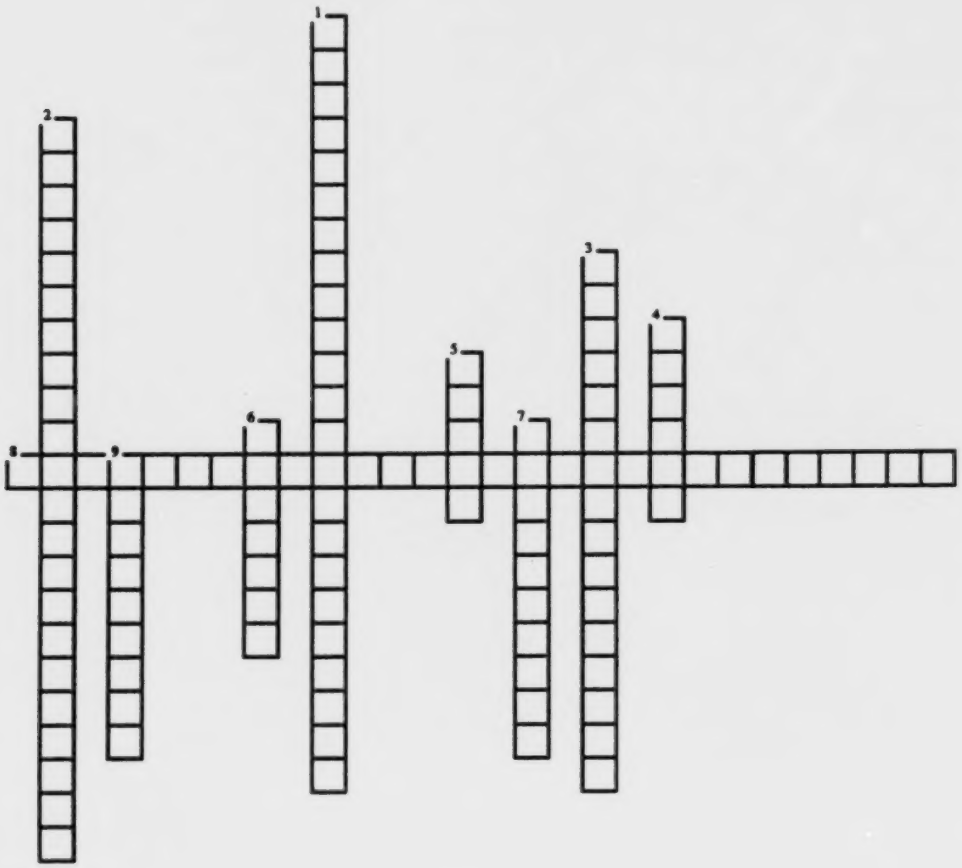
Background: After the stock market crash of 1929, Congress passed legislation that created the Federal Deposit Insurance Corporation (FDIC), which protects the funds of depositors at member banks. The FDIC is authorized to set standards for member banks, examine banks to make sure they comply with the standards, take action to prevent troubled banks from failing, and pay depositors if a member bank fails. In order to help consumers understand banking issues, the FDIC publishes a free quarterly newsletter.

Instructions: Prepare a letter requesting a copy or a free subscription to the quarterly newsletter *FDIC Consumer News*. The address is: FDIC, Room 7118, Dept. P, 550 17th St. NW, Washington, DC 20429. Submit your rough draft to your instructor for proofing before sending your final letter. When it is returned to you, add this activity, and newsletters as you receive them, to your Financial Services Portfolio.

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

8. A preselected code that identifies the authorized user

DOWN

1. Computerized systems used to debit one account and credit another
2. A machine, using a plastic card and a PIN, that can handle a variety of banking functions

DOWN (continued)

3. Using a plastic card to access the customer's bank account and transfer funds to the store
4. To transfer funds into a customer's account
5. To transfer funds from a customer's account
6. A checkless payment method that uses plastic cards
7. The transfer of funds from a bank account
9. Contains a microprocessor and memory chips embedded within the plastic

Learning Activity 2
Hosting a Guest Speaker

ASSIGNMENT 5
A Checkless Society

Objective: To find out more about the services the Federal Bureau of Investigation (FBI) offers to financial institutions

Background: The Federal Bureau of Investigation (FBI) offers a number of services to financial institutions, such as seminars on identifying counterfeit currency, collecting non-sufficient funds (NSF) checks, and becoming knowledgeable about credit card scams. FBI agents are knowledgeable about the trends and changes within the financial services industry.

Instructions: Prepare a letter of invitation, requesting an FBI agent to make a presentation to the class on the pros and cons of a checkless society, new trends in handling money, the services the FBI offers to financial institutions and other groups, and the role of the government in dealing with the trends and changes within the financial services industry. Submit a one-page summary of the presentation to your instructor. When it is returned to you, add the summary to your Financial Services Portfolio.

Learning Activity 3
Writing a Letter

ASSIGNMENT 5
A Checkless Society

Objective: To write a business letter requesting information on automated services provided by a financial institution

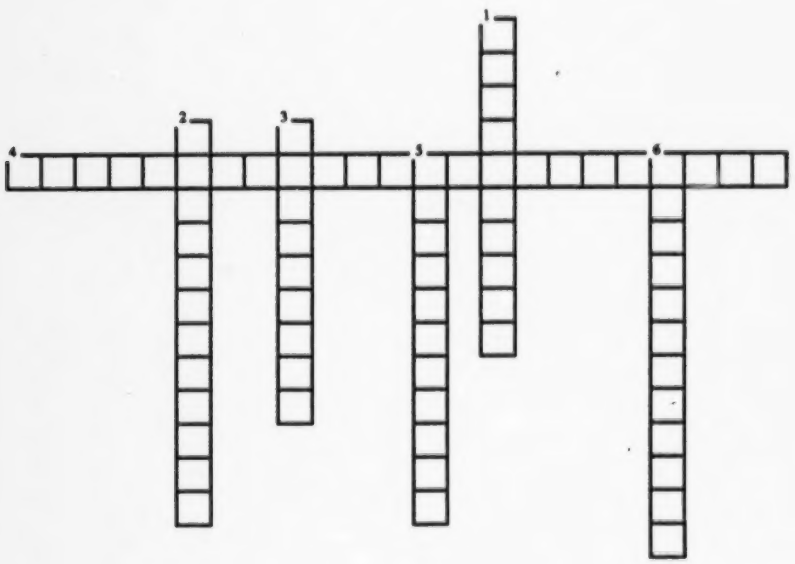
Background: Financial institutions offer a number of customer services that can be performed from the customer's home or office. Routine banking-related activities, such as transferring money from one account to another or paying bills by telephone or computer, can be done whenever and wherever the customer happens to be, providing round-the-clock banking transactions.

Instructions: Compose a business letter to a financial institution of your choice, requesting one or more brochures detailing the automated services they offer. Submit your letter to your instructor for proofreading and corrections. Make a file copy of your final letter before mailing. Attach the brochure(s) you receive to a copy of your letter, and add this activity to your Financial Services Portfolio.

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

4. Financial institution that offers checking accounts, savings accounts, brokerage services, mutual funds, and computer services to its customers

DOWN

1. A group of stocks offered by an investment company to sell in one package
2. A loosening of governmental controls
3. Able to speak more than one language fluently
5. Additional training required to upgrade job skills
6. Combining the capabilities of the telephone, computer, and television to complete banking tasks

Learning Activity 2
Collecting Articles

ASSIGNMENT 6
Current Trends and the Future of Financial Institutions

Objective: To collect articles based on objectives from the related assignment

Background: Employees of financial institutions need to keep up-to-date on trends within the industry by reading articles from the business section of major newspapers, such as the *New York Times* or *Washington Post*, or from the *Wall Street Journal*. Change permeates every aspect of society, and the trends of the future imply a financial marketplace that moves and shifts with the needs of its customers.

Instructions: For a two-week period, you are to collect articles from the above sources, or others to which you might have access, about the financial services industry. You should refer to the objectives for this assignment for suggestions. At the end of the two-week period, you are to group the articles based on the objectives and other additional categories. Compare your findings with those mentioned in the assignment, developing your own list of the "Top Ten Financial Trends." Submit your list to your instructor. When returned to you, add this activity to your Financial Services Portfolio.

Learning Activity 3
Seeing into the Future

ASSIGNMENT 6
Current Trends and the Future of Financial Institutions

Objective: To identify "futuristic trends" from the 1970s and 1980s that have become accepted practices in financial institutions of the 1990s

Background: In the early 1970s and on into the 1980s, a number of new trends in banking were identified that have now become accepted business practices in financial institutions of the 1990s. A major factor that has played a significant role in the trends becoming practices is the increasing importance and widespread use of technology and automation.

Instructions: You are to use resources found in the classroom, high school library, or public library to identify at least three "futuristic trends" that have since become accepted practices in today's financial institutions. Cite the source for this information by title and date of publication. Explain how the advances were made possible and how they have increased the productivity and/or profitability of financial institutions. Identify at least three trends of the 1990s that you think will become accepted business practices into the next century and what advantages they hold for financial institutions and/or their customers. Submit your report to your instructor. When it is returned to you, add the report to your Financial Services Portfolio.

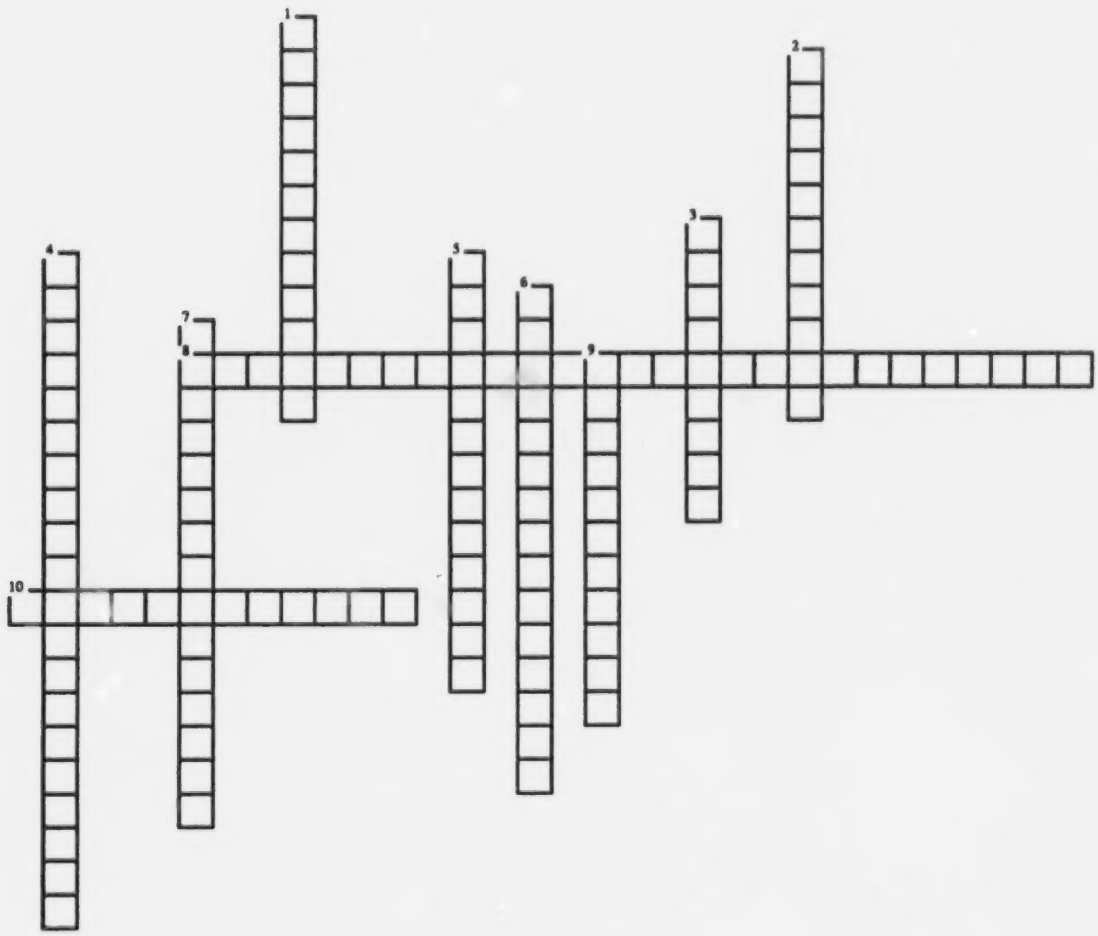
Learning Activity 1
Words to Remember

ASSIGNMENT 7
Banking Operations

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

8. A retirement account designed for workers employed by companies
10. A retirement account for self-employed individuals allowing withdrawals only after reaching age 59 1/2

DOWN

1. A fund established for minors that is held until the child reaches a more financially responsible age
2. An account established to save for a special objective
3. A record the financial institution provides to the customer indicating deposits, withdrawals, and balance
4. An official bank deposit receipt stating the amount of money, the length of time, and the rate of interest
5. An account that has funds held by the bank for safekeeping that must be released to the customer when desired
6. Penalty paid for taking funds from a time deposit before maturity
7. An account designed to offer inexpensive banking services to young people and senior citizens
9. An account that has a specific maturity date and a penalty for early withdrawals

Learning Activity 2
Going on a Treasure Hunt

ASSIGNMENT 7
Banking Operations

Objective: To collect examples of various banking-related forms and brochures

Background: As a new employee in a financial institution, you need to become familiar with a variety of forms and brochures found in banks, savings and loans, and credit unions.

Instructions: Working in small groups, you are to collect the following items used and/or found in financial institutions. Upon your return to class, compare your items with those collected by other students, noting similarities and differences. Using samples from all groups, the instructor will assign one group to create a bulletin board titled "Banking Operations."

Items to be Collected (More items can be added to this list.)

- Demand deposit slips
- Deposit/withdrawal slips
- Application form for CDs
- Information on Keogh accounts
- Information on related services
- Employment application forms
- Savings account application forms
- Sample certificates of deposit
- Application forms for new checking accounts
- Information on IRAs
- Information on club accounts
- Teller forms

Learning Activity 3
Hosting a Guest Speaker

ASSIGNMENT 7
Banking Operations

Objective: To learn more about banking operations from one or more guest speakers from financial institutions

Background: By combining deposit, paying, lending, and trust functions, today's financial institutions offer their customers many services to meet their monetary needs. A guest speaker, or a panel of speakers representing each major function, can offer answers to many of the questions asked by students interested in financial services careers.

Instructions: Prepare a letter of invitation, requesting one or more guest speakers to make a presentation to the class on banking operations, the dollar volume dealt with on a day-to-day basis, experience required for different types of banking-related jobs, and other information pertinent to the topic of this assignment. Submit a one-page summary of the presentation to your instructor. When it is returned to you, add this summary to your Financial Services Portfolio.

Learning Activity 4
Sequencing Procedures

ASSIGNMENT 7
Banking Operations

Objective: To identify the steps and arrange in the proper sequence a variety of banking procedures

Background: As a new employee in a financial institution, you need to know and understand basic banking operations. A number of banking procedures involve several steps that must be completed in a certain order. The work that you do impacts the productivity and successful operation of not only your own area of responsibility, but also the financial institution as a whole.

Instructions: Consult the procedures guide for the financial institution in which you are training, or interview an employee of a financial institution to determine the proper method for completing the procedures listed below. On a separate sheet of paper for each procedure, list the steps, in sequence, for completing each customer transaction. Submit the procedures to your instructor. When it is returned to you, add this activity to your Financial Services Portfolio.

Procedures

- Opening a new checking account
- Assigning account numbers
- Completing a signature card
- Ordering personalized checks
- Issuing temporary checks and deposit slips
- Ordering an ATM card

Learning Activity 1
Words to Remember

ASSIGNMENT 8
Deposit and Paying Functions

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

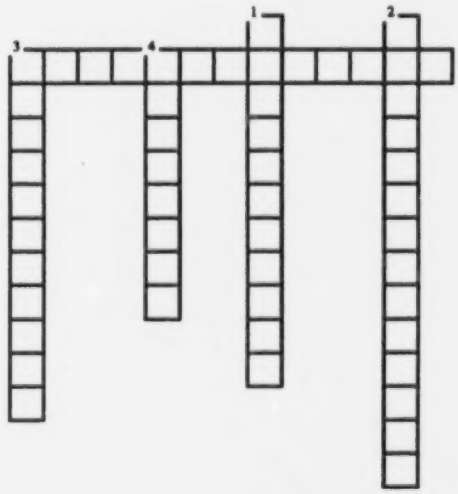
Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.

ACROSS

3. The process of regularly and automatically transferring funds from one account into another

DOWN

1. The kinds of money that can legally be used to pay debts and that must be accepted as payment when offered
2. A preprinted or blank form used to record and process a withdrawal
3. A preprinted or blank form used by the customer to record—and by the financial institute to process—a deposit
4. Paper money, such as dollar bills



Objective: To complete a withdrawal slip and a deposit slip, write a check, and use an ATM

Background: In order to process the customer's deposit and paying transactions, you need to be able to identify all areas requiring customer information. By completing sample forms yourself, you learn to notice the required details, minimizing errors and oversights. By using an ATM, you can explain the process to others who haven't used this technology.

Instructions: First, using the sample forms collected as part of the previous assignment, complete all information necessary to process a withdrawal and a deposit and to cash a check. You may use fictitious, but realistic, information. Second, using your own ATM card, write the steps involved in an ATM withdrawal. If you do not have an ATM card, ask someone you know to let you watch him or her use an ATM card. Third, submit the completed withdrawal slip, deposit receipt, and ATM withdrawal receipt to your instructor. When they are returned to you, add these items to your Financial Services Portfolio.

Learning Activity 3
Role-playing Situation

ASSIGNMENT 8
Deposit and Paying Functions

Objective: To reinforce correct procedures by role-playing a training session

Background: One method for determining how well you know and understand a procedure is to explain it to someone else. Role-playing is a successful training technique and can be used in a number of different situations.

Instructions: You are to role-play the trainer in the following situation. A new employee of a finance-related business is being trained. The employee's responsibilities include receiving deposits and processing customer withdrawals (checks and withdrawal slips). As the trainer of this new employee, you are to provide him or her with instructions on the deposit and paying operations. State specifically what the employee should look for on properly completed forms. Be sure to include in your explanation: (1) the elements of a deposit receipt, (2) the three categories of money on a deposit slip, and (3) the three ways a customer can take money out of an account.

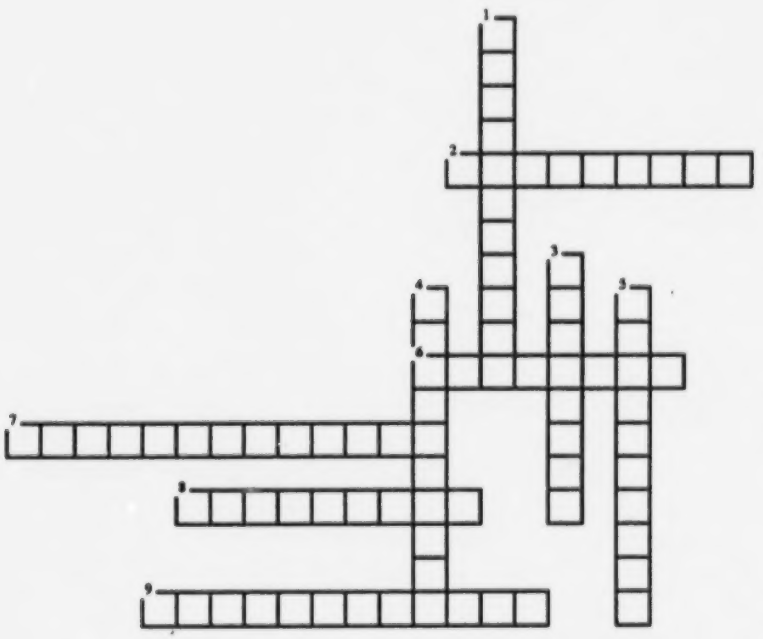
Learning Activity 1
Words to Remember

ASSIGNMENT 9
The Lending Function

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

2. The lowest rate of interest a bank charges to its best customers, who have excellent credit ratings
6. Real; able to be seen or touched
7. A loan granted based on the borrower's promise to repay it; also known as a *signature loan*
8. The group of loans a bank has made
9. A prearranged and approved maximum amount of credit a financial institution will provide

DOWN

1. A loan that includes an asset the borrower pledges to the lender
3. A person who guarantees that he or she will pay the loan if the borrower defaults
4. Unable to be touched but carrying a cash or financial value
5. An asset pledged to guarantee that the bank will get its money if the borrower fails to repay the loan

Objective: To locate an article on lending, identify lending terms it uses, and summarize its content

Background: To stay up-to-date with current industry trends, professionals in finance-related businesses read articles found in the business section of local newspapers, national newspapers like *USA Today*, business newspapers like *The Wall Street Journal*, and other periodicals.

Instructions: Locate an article on lending in a recent newspaper or business magazine. Photocopy or cut out the article for your use in completing this assignment. Submit the article and the following information to your instructor. When they are returned to you, add these materials to your Financial Services Portfolio.

Article Information

- Source of the article and its date of publication:

- Five-sentence summary of the article:

- Lending terms circled or identified in some way

- Three-sentence personal reaction to article:

Objective: To calculate the dollar amount of interest charged at various rates

Background: Employees of financial institutions must be able to calculate the dollar amount of interest on consumer and other types of loans. Interest rates vary according to a number of factors, such as the amount of the loan, the current prime rate, and the type of financial institution.

Instructions: After consulting with your instructor, call three different types of financial institutions and ask what interest rate they would charge for a loan of a particular amount and for a particular purpose (e.g., $7,000 for a used car). Perform the following calculations.

	Institution A	Institution B	Institution C
Type of institution			
Interest	%	%	%
Total interest	$	$	$
Monthly payments	$ /mo.	$ /mo.	$ /mo.
Total amount repaid (including interest)	$	$	$

Learning Activity 1
Words to Remember

ASSIGNMENT 10
The Investment Trust Function

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

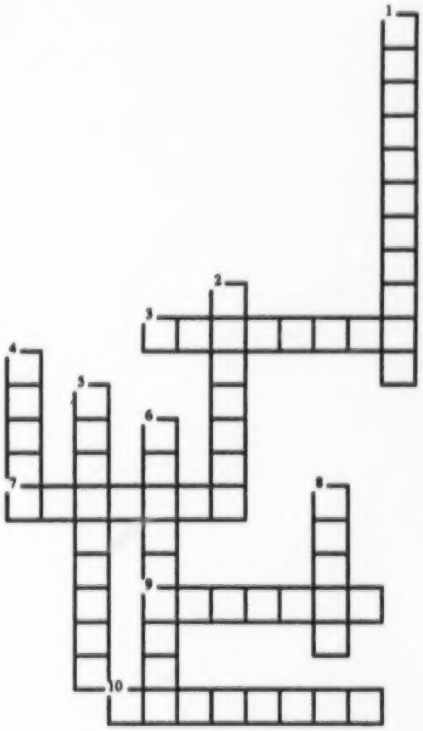
Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.

ACROSS

3. Someone named in a will to carry out its instructions
7. The person or institution performing a trust service
9. The person establishing a trust
10. The legal term for a person who has died

DOWN

1. The person who benefits from a fiduciary service
2. The legal term for having left a valid will in keeping with state law
4. A person who is given specific authority to act on behalf of a person who still legally owns the property
5. Holding and managing assets for the benefit of another party
6. The legal term for having left no will or having the will ruled invalid
8. A person who is of less than legal age



Learning Activity 2
Interviewing a Trustee

ASSIGNMENT 10
The Investment Trust Function

Objective: To conduct and summarize an interview with a trustee

Background: Trustees perform an important function in many financial institutions. Information about fiduciary services can be obtained through interviews with financial trustees.

Instruction: Select a financial institution that offers one of the five groups of fiduciary services identified in the assignment. Develop a list of questions using the ones below as a starting point. Contact a trustee to interview. Conduct a personal or telephone interview, taking notes to be used in your report. Submit a one-page summary of your interview to your instructor. When it is returned to you, add this summary to your Financial Services Portfolio.

Interview Questions

- For what types of fiduciary services are you a trustee?
- How many employees are trustees?
- What are two or three job titles, their qualifications, and salary ranges for trustees?
- Annually, about how many dollars are involved in the trust function?
- What are some new trends in the trust function?
- What resources do trustees use to keep informed about the laws and regulations of the industry?

Objective: To collect and record information about financial businesses

Background: Many local businesses offer fiduciary services to customers who want to protect their assets. The local business directory found in the public library, telephone directory, and Chamber of Commerce are resources to use in identifying local businesses involved in the trust function.

Instructions: Using one or more of the resources listed above, compile a list of at least two local businesses involved in the five types of fiduciary services named below. Submit this activity to your instructor. When it is returned to you, add this activity to your Financial Services Portfolio.

Settling Estates
1.

2.

3.

Acting as Trustee under Indenture
1.

2.

3.

Assisting in Estate Planning and Tax Counseling
1.

2.

3.

Administering Trusts and Guardianships
1.

2.

3.

Administering Employee and Retirement Plans
1.

2.

3.

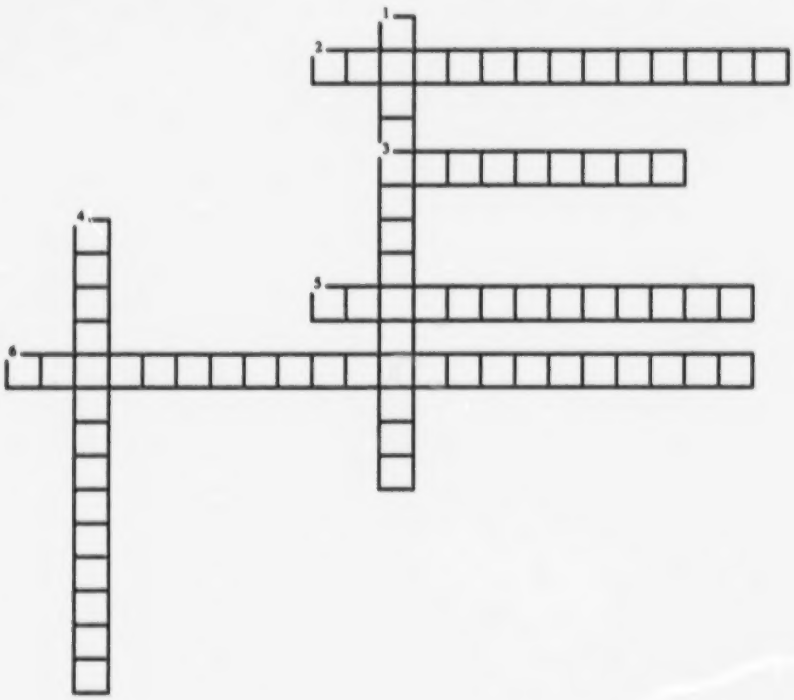
Learning Activity 1
Words to Remember

ASSIGNMENT 11
Other Financial Services

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

2. A draft purchased from a financial institution, which, with proper verified signatures, guarantees payment to the business accepting it
3. Allows for funds to be transferred electronically from the buyer's account to the seller's account
5. A check drawn by a financial institution on its own funds and signed by its cashier
6. A transaction that is not handled on a credit basis

DOWN

1. A drawer inside the bank's vault used to protect the customer's valuables
4. The result of a process in which the bank guarantees that a customer's personal or business check is good

150

Objective: To identify potential problems and possible solutions within the financial services industry

Background: Financial products and services are offered for various reasons, depending on the goals of the business. New products and services are developed to solve problems, provided that the cost to the consumer is reasonable and the business makes a profit.

Instructions: Working individually or in groups, you are to identify three to five future problems that might arise in the financial services industry. After the problems have been identified, you are to identify possible solutions. You may design a product or service for the problem, identifying the cost to the consumer and the profit for the business. Present your findings to the class, and be prepared to justify the need for your product or service. Remember, not all problems will require a new product or service. Add the information you have compiled for this activity to your Financial Services Portfolio.

Learning Activity 3
Writing a Letter

ASSIGNMENT 11
Other Financial Services

Objective: To write a business letter requesting information on one or more services provided by a financial institution

Background: Financial institutions offer a number of customer services, either free or at a nominal charge. Renting safe-deposit boxes, purchasing cashier's or certified checks, and applying for bank cards, such as Visa or Mastercard, are just a few of the many services a financial institution might offer its customers.

Instructions: Compose a business letter to a financial institution of your choice, requesting a brochure detailing one or more of the banking-related services they offer. Submit your letter to your instructor for proofreading and corrections. Make a file copy of your final letter before mailing. Attach the brochure(s) you receive to a copy of your letter, and add this activity to your Financial Services Portfolio.

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

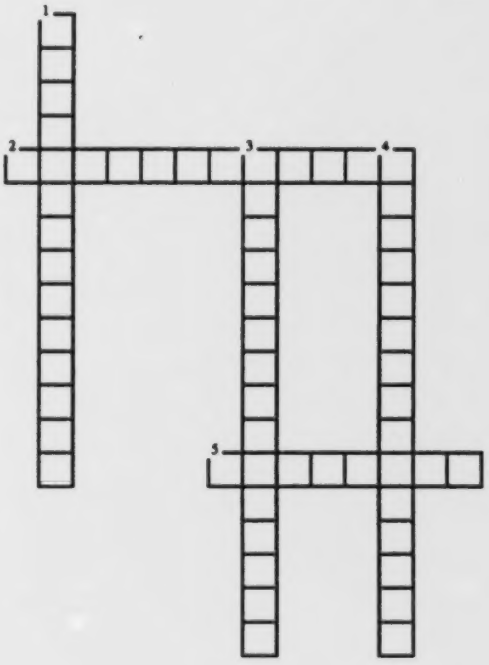
Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.

ACROSS

2. The statistical information about human populations used to identify markets
5. A collection of information organized for rapid search and retrieval by computers

DOWN

1. The gathering of factual information about consumer preferences for products and related services
3. The decisions a business makes in the production and sale of its products
4. The decisions a business makes regarding the free and for-sale services offered to customers



Objective: To learn more about using databases

Background: Information from databases help financial institutions learn more about their consumers so that appropriate products and services are available. Market research can help financial institutions grow and prosper, regardless of economic challenges.

Instructions: Visit a high school, community college, university, or public library. Ask the librarian to give an overview of the research capabilities of ERIC, reference materials on CD ROM, and STARTRACK, or computer networks. Use one or more sources of information to research the topics below.

Research Topics

- What were the top three savings and loans in _____ (year)?

  Source: _____

  Information: _____

- What was the average income level of adults aged 30–50 in _____ (year)?

  Source: _____

  Information: _____

- What are the ten largest cities in your state?

  Source: _____

  Information: _____

Learning Activity 3
Using Databases, Taking a Field Trip

ASSIGNMENT 12
Research and Planning

Objective: To learn more about using databases

Background: Information from databases help financial institutions learn more about their consumers so that appropriate products and services are available. Market research can help financial institutions grow and prosper, regardless of economic challenges.

Instructions: After consulting with your instructor, arrange to visit the market research department at a local financial institution or a marketing research company. Prior to the visit, compile a list of questions to ask, using those below as a starting point. Submit a one-page summary of your visit to your instructor. When returned to you, add this activity to your Financial Services Portfolio.

Possible Questions

- How do you conduct your market research?
- How much time is involved in research and planning?
- What are three job tasks you perform?
- What qualifications are required or recommended to work in market research?
- What resources do you use in conducting your market research?

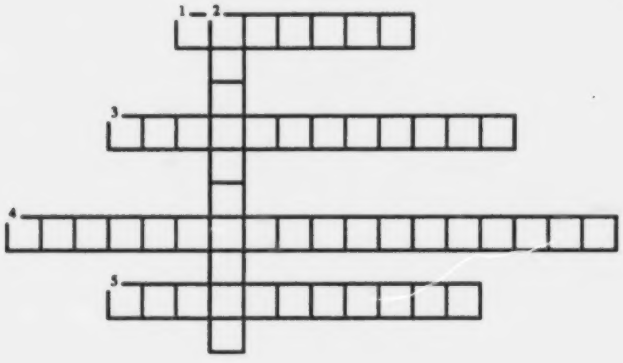
Learning Activity 1
Words to Remember

ASSIGNMENT 13
Advertising and Promotion

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

1. One-page promotional flyers included in monthly statements or other mailings
3. Promoting products and services within the same business or from company to company
4. Advertising designed to promote an idea rather than to sell a particular product or service
5. Letting people know what your financial institution offers

DOWN

2. A small, newspaperlike publication containing information of interest to a specific group

Learning Activity 2
Interviewing Marketing/Advertising Manager

ASSIGNMENT 13
Advertising and Promotion

Objective: To conduct an interview with the marketing/advertising manager of a local financial institution

Background: Advertising and promotion is more important to financial institutions now than ever before in history. As competition grows, the methods of reaching out to existing and new customers changes. Marketing/advertising managers are responsible for planning, implementing, and evaluating the success of promotional campaigns.

Instructions: Working individually or in a group of no more than three students, you are to prepare a letter to the marketing/advertising manager of a local bank, requesting a personal interview. Use the objectives for the assignment as the starting point for questions to ask during the interview. Request samples of advertising and promotional materials used by the financial institution to attach to your summary, which will be submitted to your instructor. When they are returned to you, add these materials to your Financial Services Portfolio.

Learning Activity 3
Identifying Forms of Advertising and Promotion

ASSIGNMENT 13
Advertising and Promotion

Objective: To identify forms of advertising and promotion used in financial institutions

Background: Employees of financial institutions need to become aware of the different types of advertising and promotional efforts undertaken by the business and its competition. As competition grows, the methods of reaching out to existing and new customers changes through advertising and promotional campaigns developed and implemented by the financial institution.

Instructions: Using a tape recorder, record at least one radio commercial, or videotape at least one television commercial, promoting a financial institution. Collect samples of direct-mail ads, newspaper ads, sketches of billboards, magazine advertisements, and specialty advertising (calendars, pens, and other useful items imprinted with the financial institution's advertising message). Bring your collection to show other students the types of advertising and promotion used in financial institutions. Add your collection to your Financial Services Portfolio.

Objective: To plan and sketch a sample of an advertisement or promotional item that might be used in financial institutions

Background: Creative advertising and promotional itens catch the attention of new and existing customers. An advertisement or promotional item may be directed at a specific target audience or may be general in nature. The goal may be to promote a specific product or service, to cross-sell to another financial service or company, or to advertise a concept.

Instructions: You are to develop a sample advertisement or promotional item that might be used in a financial institution. You may use artwork cut from magazines or other printed materials, but the idea for the advertisement or promotional item must be your own. Your advertisement must have a headline, copy (written information about the product or service), an illustration, and the logotype for the financial institution. You may choose to combine more than one advertisement and promotional item to create a minicampaign.

Learning Activity 1
Words to Remember

ASSIGNMENT 14
Risk Management

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

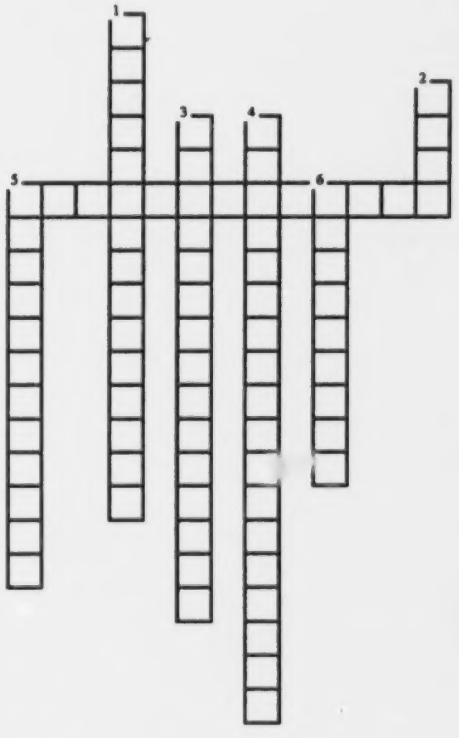
Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.

ACROSS

5. An official document showing the customer's authentic signature in his or her handwriting

DOWN

1. A risk management tool to protect the financial institution from losses caused by nonemployees
2. To insure against loss by a business whose employees handle large sums of money
3. A risk management tool to protect the financial institutions from losses caused by dishonest employees
4. A security practice that involves a special camera lens designed to read a depositor's distorted signature
5. The practice of having part of a customer's check credited to an account and the remainder paid out in cash
6. Comparing the amount of money the teller should have with the actual amount on hand



Objective: To collect and report information about current risk management trends and techniques used in financial institutions

Background: As financial institutions examine ways to prevent losses, they implement both internal and external controls. Because criminal activity is constantly changing, personnel must keep up-to-date on current trends and available technology.

Instructions: Select one of the following ways to learn more about current risk management trends and technology. Submit your report to your instructor. When it is returned to you, add this activity to your Financial Services Portfolio.

Research

Using the library's current periodicals, identify new techniques in security operations. Your report may include pictures, layout drawings, and other artwork. Your report should be 2–3 pages if handwritten, excluding artwork.

Personal Interview

Conduct a personal interview with the director or manager of security operations at a local financial institution. Discuss new ways in which risk management is being implemented, the personnel and costs involved, and other topics. Your report may include brochures, company policy booklets, and other artwork. Your report should be 2–3 pages if handwritten, excluding artwork and other supplemental materials.

Learning Activity 3
Learning about Computer Disaster Recovery Plans

ASSIGNMENT 14
Risk Management

Objective: To learn more about disaster recovery plans designed to be implemented in computer emergency situations

Background: Each financial institution must have a backup plan in place in the event of a loss of massive amounts of computer-stored information. These disasters could involve weather-related situations, such as floods, earthquakes, tornadoes, or hurricanes, or could be the result of computer viruses or manipulation by employees, accidental or deliberate. Regardless of the cause, the financial institution must have a plan to "bring back" as much information as it can, as quickly as possible.

Instructions: Prepare a letter requesting an interview with the operations manager of a local financial institution to determine the company's disaster recovery plans. Prepare several questions prior to the interview, based on your local situation (hurricanes if you are on the coast, floods if near a river, etc.) and general situations. Ask the financial institution employee how this plan would be communicated to the customers, who would, of course, be concerned in the event of an emergency. Submit a one-page summary of the interview to your instructor. When it is returned to you, add the report to your Financial Services Portfolio.

Learning Activity 1
Words to Remember

ASSIGNMENT 15
International Banking

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

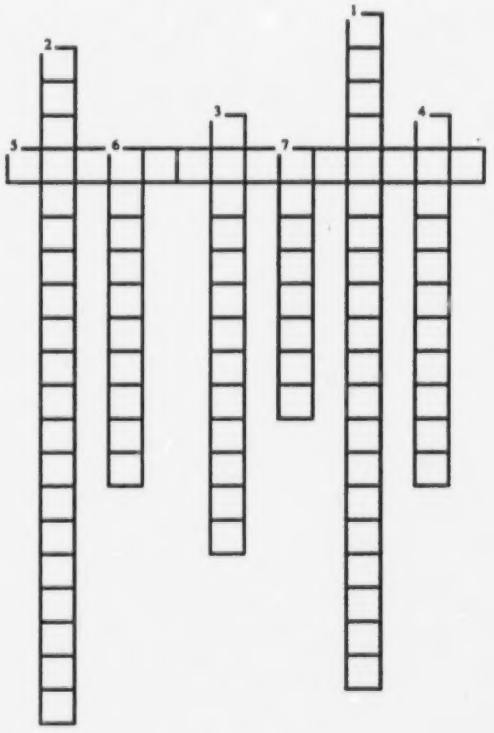
Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.

ACROSS

5. The bank's written guarantee stating that payment will be made when certain conditions are met

DOWN

1. A large bank provides financial services to another (usually smaller) bank
2. A network of financial institutions that handle worldwide credit, payments, and currency exchange
3. Trading one country's currency for the current market value of another country's currency
4. A letter of credit that calls for immediate payment upon receipt of shipping documents
6. A letter of credit that specifies a later date by which payment must be made
7. The largest U.S. bank; in 1992, it was 25th largest in the world



Objective: To collect and record information about international banking

Background: As the United States moves into a global economy, international banking has become critical. Foreign banks have become increasingly competitive in the U.S., so American financial institutions have begun exploring foreign markets.

Instructions: If more than one student is involved with this activity, it may be completed as a group project, with each student researching the answers to 2–3 questions. Each group or individual may present the results as an oral and/or written report. (Consult your instructor for specific directions.) You are to answer the questions below. Add your findings to your Financial Services Portfolio.

Research Questions

- What local financial institutions provide international banking services? What services do they offer? In which countries do they operate?
- Of the four common types of international banking (basic service, commercial, trade services, and foreign customers), what percentage of the local financial institution's business is conducted in each?
- List the 25 largest banks in the world. How does the United States rank in the global banking market?
- How many foreign banks are currently doing business in the United States? What percentage of banking assets in this country do they control?
- What skills must one have in order to compete for jobs in international banking?

Objective: To locate an article on international banking, identify its terms, and summarize its content

Background: To stay up-to-date with current industry trends, professionals in finance-related businesses read articles found in the business section of local newspapers, national newspapers like *USA Today*, business newspapers like *The Wall Street Journal*, and other periodicals.

Instructions: Locate an article related to international banking in a recent newspaper or business magazine. Photocopy or cut out the article for your use in completing this assignment. Submit the article and the following information to your instructor. When they are returned to you, add these materials to your Financial Services Portfolio.

Article Information

- Source of the article and its date of publication:

- Five-sentence summary of the article:

- International banking terms circled or identified in some way

- Three-sentence personal reaction to article:

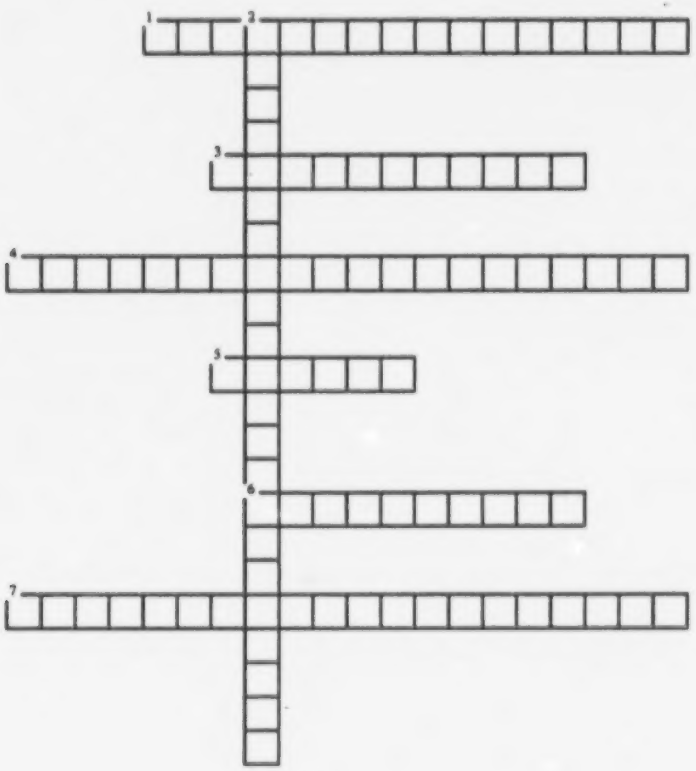
Learning Activity 1
Words to Remember

ASSIGNMENT 16
Preparing for Employment

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of teminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

1. Knowing the way computers operate
3. Includes the basics of typewriting and adds the additional keystrokes available on a computer
4. Periodicals designed for an audience of readers in a specific business or industry
5. The vocabulary used in a specific industry
6. Making contacts with others in the same business by talking with and listening to them
7. The ways in which computers are used to do specific tasks in business

DOWN

2. A meeting designed for an audience of people employed in a specific business or industry

Objective: To identify career options related to the financial services industry

Background: Employees of financial institutions must be computer literate and have taken additional courses in high school, college, or on their own afterwards to enter and advance within this ever-changing industry. One option available to students is to enroll in a nearby trade and technical school, community college, or university.

Instructions: First, identify one or two career choices within the financial services field.

Second, using catalogs from various trade and technical schools, community colleges, or universities, identify the specific major for the career choice(s) and a degree plan for that major. Photocopy this information for your use later in this activity.

Third, plan to visit one or more educational institutions where you can prepare for the career choice(s).

Fourth, notice required computer technology courses and other business-related courses. Identify these courses by highlighting them on your photocopies.

Last, prepare and submit to your instructor a one-page report on your findings, along with the photocopied information. When it is returned to you, add the report to your Financial Services Portfolio.

Learning Activity 3
Identifying Job-Related Skills

ASSIGNMENT 16
Preparing for Employment

Objective: To identify computer and general business skills required in a variety of employment positions within the financial services industry

Background: Employees of financial institutions who want to move into supervisory and management positions understand the importance of having and improving their computer and general business skills.

Instructions: Using financial institution contacts already established through other activities, contact one or more employees for their help in completing this activity. Ask him/her to identify by name various job positions within the industry. Using the list, obtain job descriptions for these positions. Bring this information to class to share with other students, identifying the computer and general business skills required in performing duties in each job description. Add this activity to your Financial Services Portfolio.

Learning Activity 4
Learning about Professional Associations

ASSIGNMENT 16
Preparing for Employment

Objective: To learn more about the variety of professional organizations and associations within the financial services industry

Background: Employees of financial institutions themselves must be responsible for learning more about their profession through networking with others in the same or related fields. One opportunity exists through active membership in professional organizations and associations. In addition to publishing periodicals that discuss all aspects of the industry, professional organizations sponsor continuing education classes and professional conferences.

Instructions: Identify professional organizations in the financial services industry. Prepare a letter to request information about a particular organization so that you might attend a local meeting, and ask for a complimentary copy of their professional journal or magazine. Submit a one-page summary of the meeting and related materials obtained from the professional organization. When they are returned to you, add these materials to your Financial Services Portfolio.

Learning Activity 1
Words to Remember

ASSIGNMENT 17
Training in a Bank, Credit Union, or Savings and Loan

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

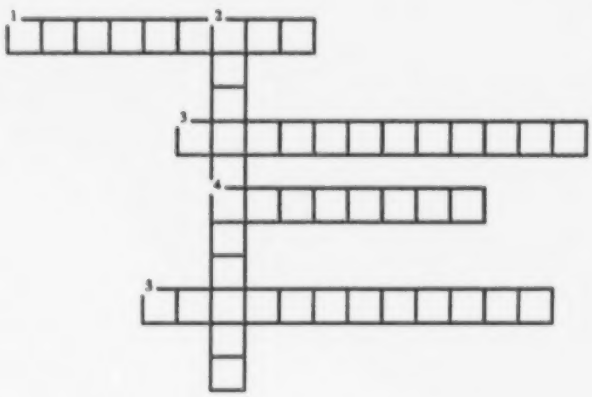
Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.

ACROSS

1. The expectations of a business regarding the clothing, accessories, and grooming of employees
3. Following traditional norms of taste, style, or manners
4. A formal or informal method of teaching employees job skills
5. Money circulated within the community instead of immediately going outside of the neighborhood

DOWN

2. A chance for advancement occurring at an appropriate time



Objective: To find out more about the opportunities and skills required for employment in financial institutions

Background: The person responsible for interviewing, hiring, and training new employees has the challenging job of selecting the employees who will determine the success of the financial institution. If not selected and trained with care, new employees can adversely affect the productivity and customer relations established and maintained by the business.

Instructions: Prepare a letter of invitation to the training and development director of a local financial institution. Develop a list of topics for the presentation, using the topics listed below as a starting point. Submit a one-page summary of the presentation to your instructor. When it is returned to you, add the summary to your Financial Services Portfolio.

Possible Topics

- Types of training conducted and why
- Types and importance of ongoing training
- Local, regional, and national employment opportunities in the financial services industry
- Employment skills required for various career choices
- Types of employment tests given and why
- Education requirements
- Trends for the future

Learning Activity 3
Writing a Business Letter

ASSIGNMENT 17
Training in a Bank, Credit Union, or Savings and Loan

Objective: To improve written communication skills by composing a sample thank-you letter to a new customer

Background: In addition to the customary responsibilities, financial institution employers expect their employees to have the basic academic skills of reading, writing, and performing mathematical calculations. One job-related application of written communications skills is sending thank-you letters to new customers.

Instructions: Compose a business letter, thanking a new customer for choosing your financial institution. Your letter is to be in an accepted business style, so you may need to consult one or more resources in the classroom or in your high school library for the proper format. Feel free to develop original material to be included in your letter, but make sure it sounds realistic. Your letter is to be at least three paragraphs in length and may be submitted in handwritten or word-processed form. Submit your final letter to your instructor. When it is returned to you, add this activity to your Financial Services Portfolio.

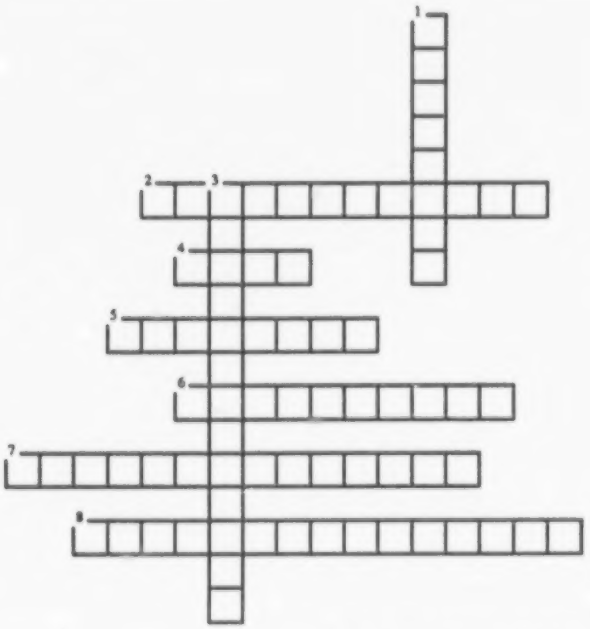
Learning Activity 1
Words to Remember

ASSIGNMENT 18
Related Financial Industries

Objective: To identify terms related to financial institutions

Background: In order to secure an entry-level position and to advance within the financial institution, a working knowledge of terminology is essential.

Instructions: Complete the crossword puzzle by using the "Words to Remember" terms found in the assignment.



ACROSS

2. Partly owned by members of the general public who have purchased shares of stock in the company
4. Putting an item of value in a pawn shop in exchange for money
5. A document listing values for certain types of items
6. A form that has personal information, loan amount and interest, and serial numbers of the items being held
7. A business that makes small, short-term loans to individual consumers or other businesses
8. A condition in which both parties have received one or more advantages

DOWN

1. A store that loans money on the security of personal property
3. A business that negotiates the sale of stocks, commodities, and securities

Objective: To read an article related to financial services and respond to questions.

Background: Employees in financial institutions read trade and business publications to keep abreast of current trends and become more knowledgeable employees.

Instructions: Read the following condensed article, and then, on a separate sheet of paper, respond to the questions found at the end. Each response should be *at least* three grammatically correct sentences. Submit this activity to your instructor. When it is returned to you, add it to your Financial Services Portfolio.

Gonzalez goes after rent-to-own operations

For years the rental-purchase business has flown over, under and around the radar of consumer credit laws of the federal government and many states, including Texas. U.S. Rep. Henry B. Gonzalez, D-San Antonio, who spent three years investigating the Iraqgate banking scandal, now has taken on the rental-purchase industry, which says it does $3.9 billion worth of business a year. Chairman of the House Banking, Finance and Urban Affairs Committee, Gonzalez last week introduced the Rent-To-Own Reform Act of 1993 to extend consumer credit interest rate caps to rental-purchase transactions.

"The committee has heard horror story after horror story of low-income consumers who, feeling they had no other choice, agreed to $10, $15, or $19 per week to buy a television set or a refrigerator," Gonzalez said. "And even when they had paid three times the value of the item, they still did not own it."

But the industry says it is in the business of renting televisions, furniture and appliances like refrigerators and washers, not selling them, and therefore it should not be subject to the consumer credit laws. "Our major concern about the Gonzalez bill from a sale point is that it institutes, indirectly at least, price controls on the industry," said Ron Waters, a spokesman for the Association of Progressive Rental Organizations. The 13-year-old, Austin-based association says it represents about half the nation's 7,500 rental-purchase stores.

Gonzalez chaired a hearing on the industry in March after reading media reports of alleged abuses of customers by some rental-purchase businesses, a legislative aide said. Ron Dusek, a spokesman for Texas Attorney General Dan Morales, said, "The state's rent-to-purchase laws are fairly weak. Mostly, (state) law legitimizes the rent-to-purchase operations and protects them from usurious liability." *Usury* is charging higher interest rates than the law allows.

Others say the business meets a consumer need—to get, say, a refrigerator—without going into debt.

"It's a rather high-risk business, obviously," said Kim Zerphey, who holds the franchise for seven Rent American stores in Texas. The risk comes with the practice of not doing a credit check on her mostly low- and middle-income customers, Zerphey said. About two thirds of her customers, she estimated, have some kind of credit problem—a bankruptcy, perhaps, or no job. Still, she said, her business suffers financial losses of just 1 to 1.5 percent because of what is called "skips" or "steals." *(continued)*

Zerphey also said renters get free delivery, free repair or replacement when a rental breaks and, especially, the right to return the property at any time with no further obligation. But consumer groups and critics like Gonzalez charge that too many rental-purchase companies charge outrageous monthly or weekly prices and other fees. That's why they want the interest rate caps.

Such a cap "would devastate me as a business," Zerphey said of Gonzalez's proposal. She probably would have to lay off employees, use lesser quality merchandise or charge more. She declined to reveal profits, but said business has been flat the past few years. In 1992, she said, revenues at her seven stores were about $2 million.

Here is an example of how applying an interest cap could affect Zerphey—and one of her customers. Zerphey rents a new 27-inch Zenith television set with its own stand and jacks for attachment to a stereo set for $20.95 a week. That comes to nearly $83.80 a month.

A renter who kept the set and made all the payments for 18 months, an industry standard, would end up paying $1,634—and owning the set, which retails for between $800 and $850 at a store. The customer would pay about $630 less by purchasing the set at a department store or taking out a loan, while Zerphey, if bound to similar rules, would lose the same amount.

But Zerphey and industry spokesmen say that most customers never buy—they just rent. Zerphey said about four out of five of her customers return their rentals before the term is up and have no equity in the set to recover. Jim Haile, of the Austin Better Business Bureau, said rent-to-own makes sense only "if you can somehow rationalize paying twice or three times the (retail) amount of a given item." However, the rent-to-own industry meets a need for those who "are not going to get an approved credit card from the department store."

NOTE: This excerpt from an October 8, 1993, copyrighted article is reprinted with permission of the *Austin American-Statesman* newspaper.

Reading Questions

- Who is Henry B. Gonzalez, and why has he become involved in rental-purchase legislation?
- What factors make the rental-purchase business "high risk"?
- If the interest rate cap becomes law, what options might rental-purchase companies have to consider? If you were Kim Zerphey, which would you implement first, and why?
- Using information given in the article, calculate the dollar value of "skips" or "steals" for Zerphey's seven stores in 1992. What might Zerphey do to lower this amount?
- What are the advantages of using a rent-to-own company, and do they outweigh the disadvantages? Why or why not?

Objective: To tour the local credit office of a large department store

Background: Numerous employment opportunities exist in credit offices of large department stores, such as Sears, J. C. Penney, and Dillards. You might be responsible for accepting payment of bills, resolving questions about bills, or maintaining the credit function of the store.

Instructions: After consulting with your instructor, arrange to visit the credit department of a local large department store. Prior to the visit, compile a list of questions to ask, using those below as a starting point. Submit a one-page summary of your visit to your instructor. When it is returned to you, add the summary to your Financial Services Portfolio.

Possible Questions

- What are three jobs tasks you perform?
- What qualifications are required or recommended to work in the credit department?
- What resources do you use in determining whether to grant credit to a customer, and how much credit can be granted?
- Besides accepting payment for the customer's department store bill, what are at least three services available at the credit department?

Learning Activity 4
Hosting a Guest Speaker

ASSIGNMENT 18
Related Financial Industries

Objective: To find out more about the opportunities and skills required for employment in a variety of businesses related to the financial services industry

Background: The financial services industry extends beyond banks, thrifts, and credit unions. In a modern society, there are many other ways to receive similar services at other businesses. Pawn shops, retail credit operations, finance companies, insurance agencies, brokerage firms, and check-cashing stores all offer a number of finance-related products and services.

Instructions: Prepare a letter of invitation to one or more guest speakers representing one or more of the related financial industries listed above. Develop a list of topics for the presentation(s), using those listed below as a starting point. Submit a one-page summary of the presentation(s) to your instructor. When it is returned to you, add the summary to your Financial Services Portfolio.

Possible Topics

- Characteristics of your "typical" customer
- Products and services you offer
- Similarities between your business and a "traditional" financial institution
- Differences between your business and a "traditional" financial institution
- Why customers choose your business over a "traditional" financial institution
- Typical job titles and descriptions for your type of business
- Employment opportunities for the above positions
- Salary ranges for the above positions
- Education and training requirements for employment in your type of business
- Opportunities for management/ownership in your type of business

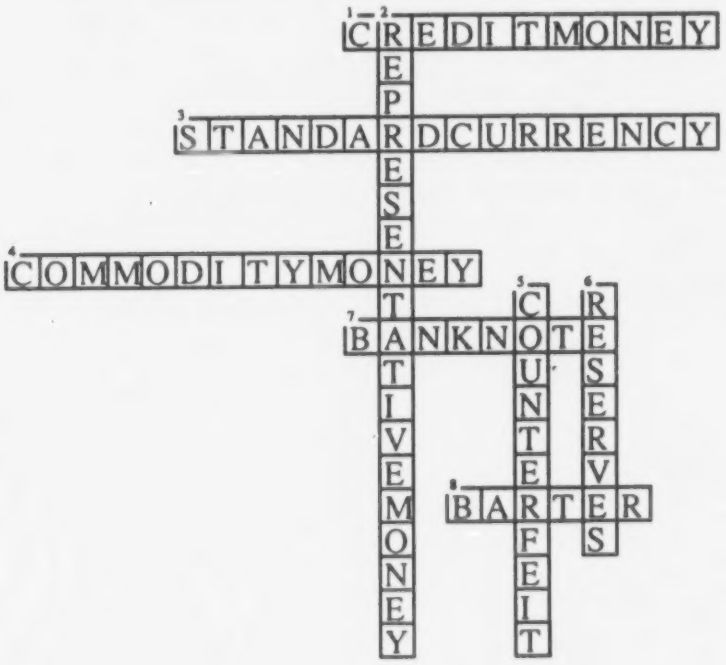
Answers to Learning Activities

NOTE

Answers for the vocabulary review crossword puzzles can be found in the following answer key. Due to the highly individualized nature of all other student learning activities included in this publication, the instructor must use his or her best judgment in evaluating them.

ASSIGNMENT 1: The Financial System

Learning Activity 1: Words to Remember



ACROSS

1. credit money
3. standard currency
4. commodity money
7. bank note
8. barter

DOWN

2. representative money
5. counterfeit
6. reserves

ASSIGNMENT 2: The Federal Reserve System

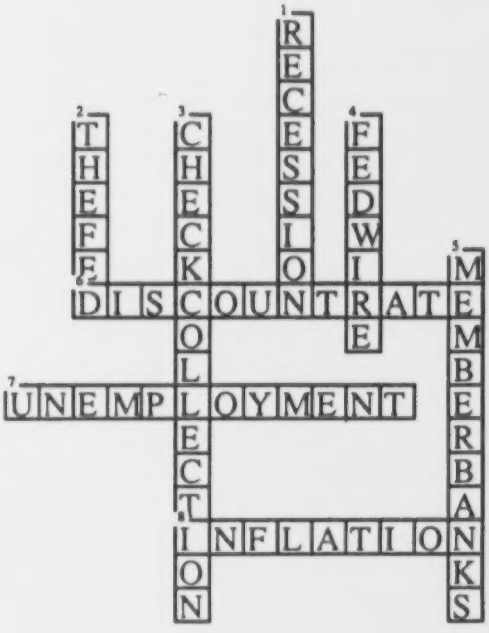
Learning Activity 1: Words to Remember

ACROSS

6. discount rate
7. unemployment
8. inflation

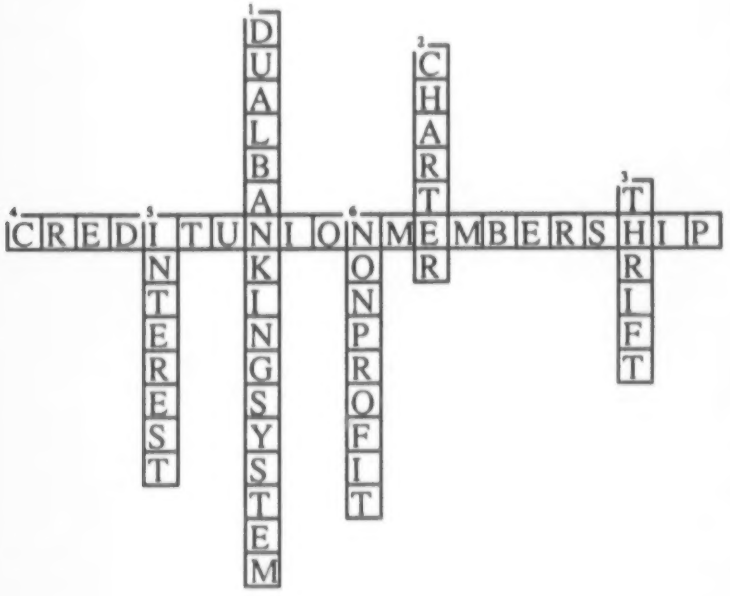
DOWN

1. recession
2. The Fed
3. check collection
4. Fedwire
5. member banks



ASSIGNMENT 3: The Banking System and Its Structure

Learning Activity 1: Words to Remember



ACROSS

4. credit union membership

DOWN

1. dual banking system
2. charter
3. thrift
5. interest
6. nonprofit

ASSIGNMENT 4: Twentieth-Century Developments in the Banking Industry

Learning Activity 1: Words to Remember

ACROSS

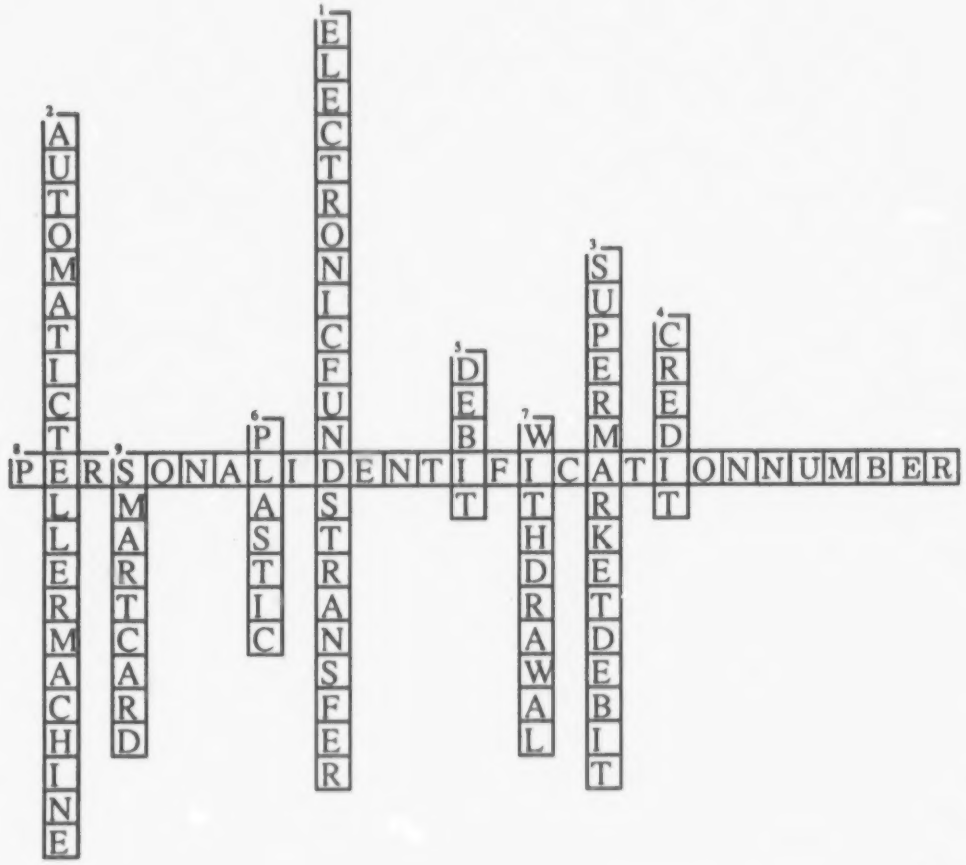
3. mortgage
6. stocks
7. FDIC
8. NOW account

DOWN

1. margin credit
2. real estate
3. money market account
4. RTC
5. junk bonds
7. FIRREA

ASSIGNMENT 5: A Checkless Society

Learning Activity 1: Words to Remember



ACROSS

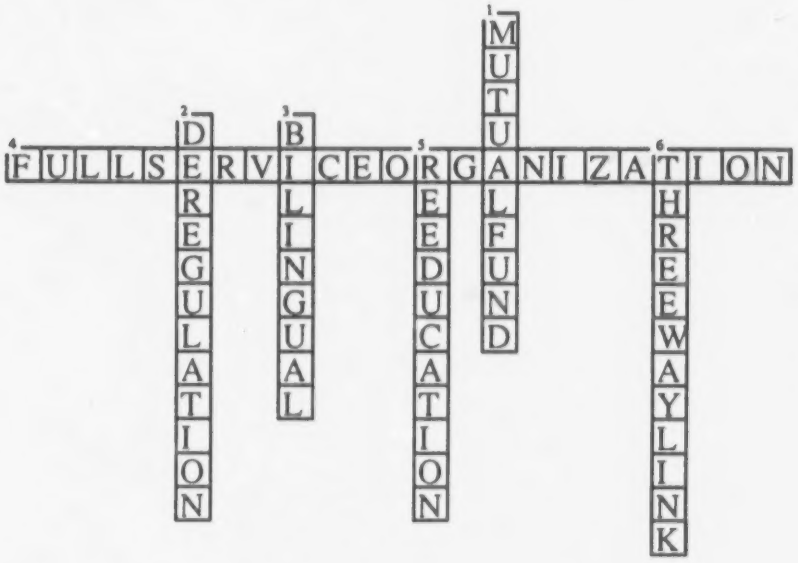
8. personal identification number

DOWN

1. electronic funds transfer
2. automatic teller machine
3. supermarket debit
4. credit
5. debit
6. plastic
7. withdrawal
9. smart card

ASSIGNMENT 6: Current Trends and the Future of Financial Institutions

Learning Activity: Words to Remember



ACROSS

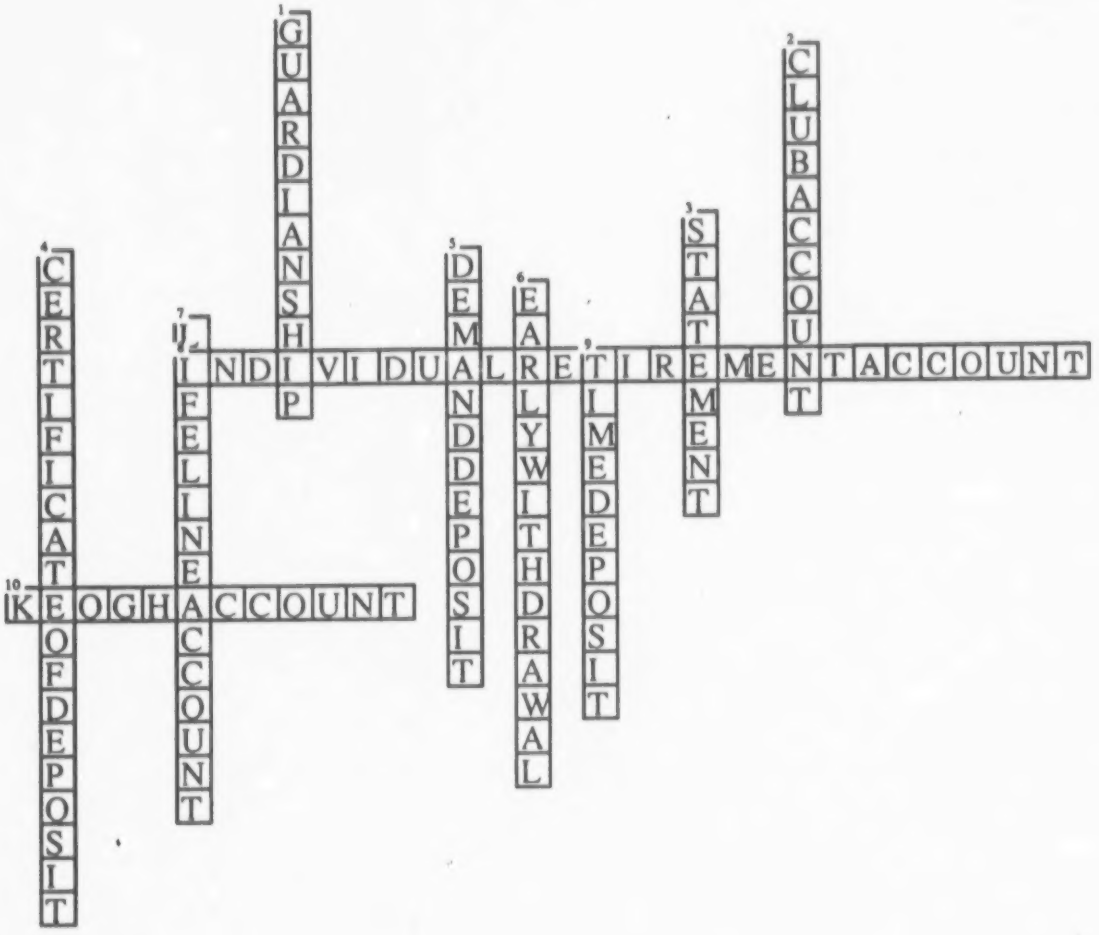
4. full-service organization

DOWN

1. mutual fund
2. deregulation
3. bilingual
5. reeducation
6. three-way link

ASSIGNMENT 7: Banking Operations

Learning Activity 1: Words to Remember



ACROSS

8. individual retirement account
10. Keogh account

DOWN

1. guardianship
2. club account
3. statement
4. certificate of deposit
5. demand deposit
6. early withdrawal
7. lifeline account
9. time deposit

ASSIGNMENT 8: Deposit and Paying Functions

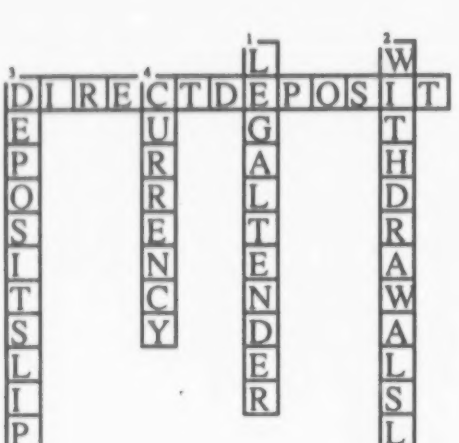
Learning Activity 1: Words to Remember

ACROSS

3. direct deposit

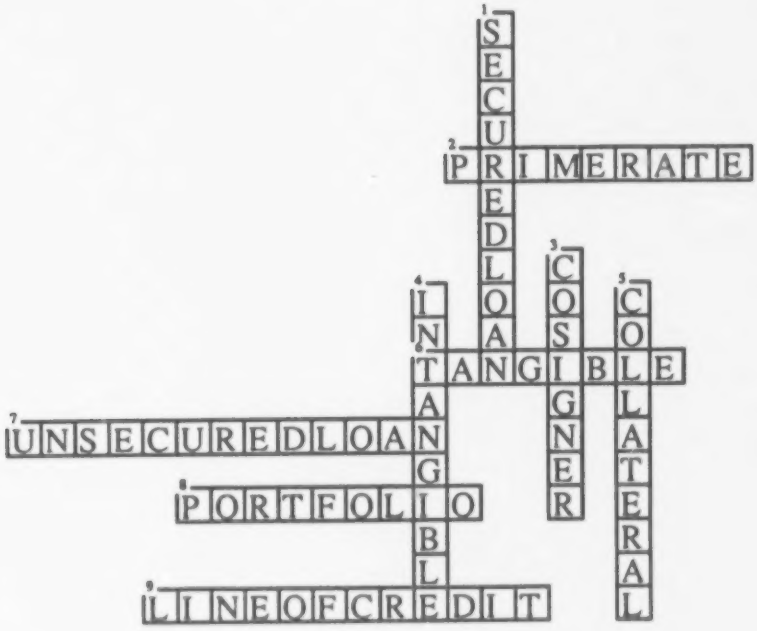
DOWN

1. legal tender
2. withdrawal slip
3. deposit slip
4. currency



ASSIGNMENT 9: The Lending Function

Learning Activity 1: Words to Remember



ACROSS

2. prime rate
6. tangible
7. unsecured loan
8. portfolio
9. tangible

DOWN

1. secured loan
3. cosigner
4. intangible
5. collateral

ASSIGNMENT 10: The Investment Trust Function

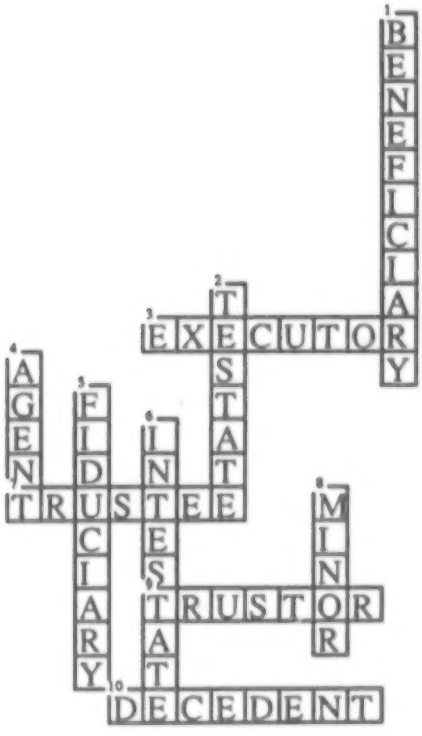
Learning Activity 1: Words to Remember

ACROSS

3. executor
7. trustee
9. trustor
10. decedent

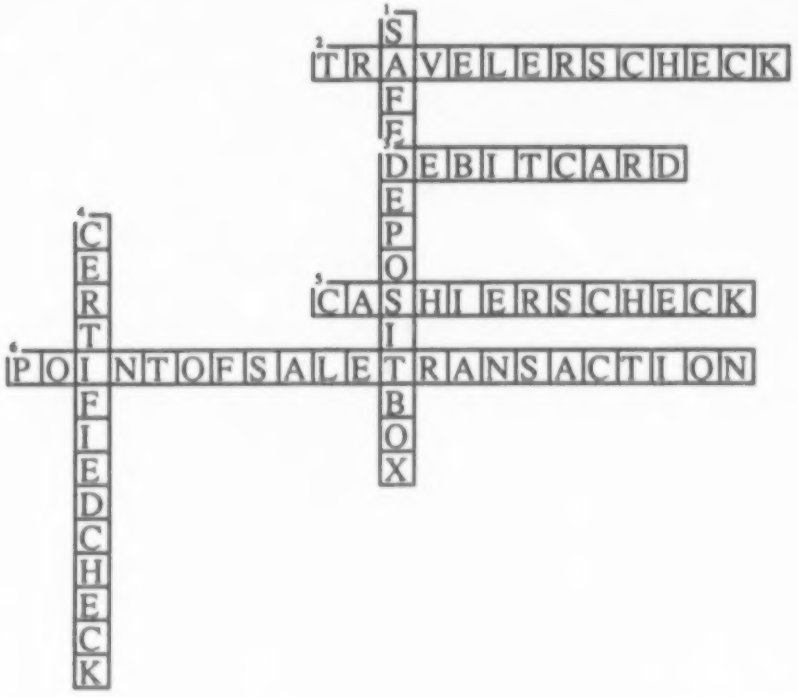
DOWN

1. beneficiary
2. testate
4. agent
5. fiduciary
6. intestate
8. minor



ASSIGNMENT 11: Other Financial Services

Learning Activity 1: Words to Remember



ACROSS

2. traveler's check
3. debit card
5. cashier's check
6. point-of-sale transaction

DOWN

1. safe-deposit box
4. certified check

ASSIGNMENT 12: Research and Planning

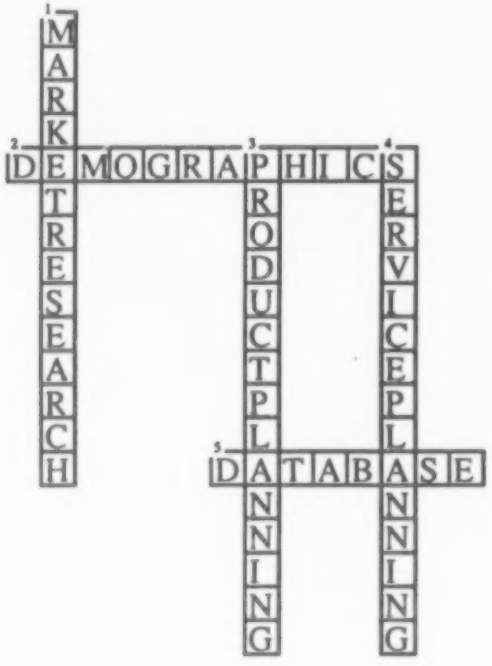
Learning Activity 1: Words to Remember

ACROSS

2. demographics
5. database

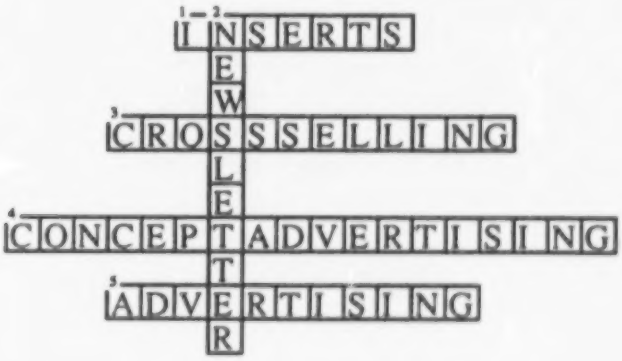
DOWN

1. market research
3. product planning
4. service planning



ASSIGNMENT 13: Advertising and Promotion

Learning Activity 1: Words to Remember



ACROSS

1. inserts
3. cross-selling
4. concept advertising
5. advertising

DOWN

2. newsletter

ASSIGNMENT 14: Risk Management

Learning Activity 1: Words to Remember

ACROSS

5. signature card

DOWN

1. external control
2. bond
3. internal control
4. scrambled signature
5. split deposit
6. cash count

ASSIGNMENT 15: International Banking

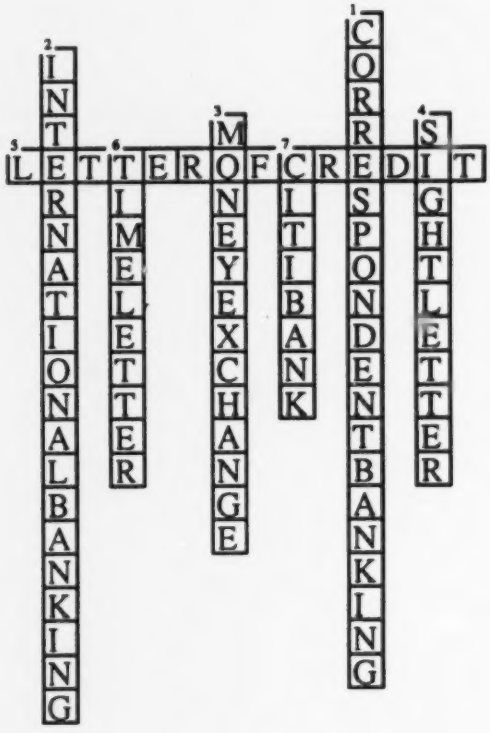
Learning Activity 1: Words to Remember

ACROSS

5. letter of credit

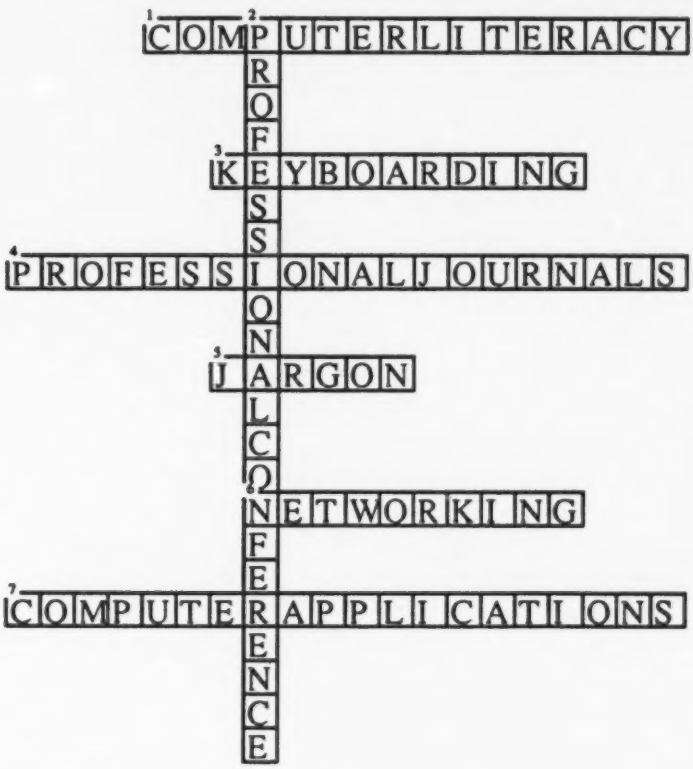
DOWN

1. correspondent banking
2. international banking
3. money exchange
4. sight letter
6. time letter
7. Citibank



ASSIGNMENT 16: Preparing for Employment

Learning Activity 1: Words to Remember



ACROSS

1. computer literacy
3. keyboarding
4. professional journals
5. jargon
6. networking
7. computer applications

DOWN

2. professional conference

ASSIGNMENT 17: Training in a Bank, Credit Union, or Savings and Loan

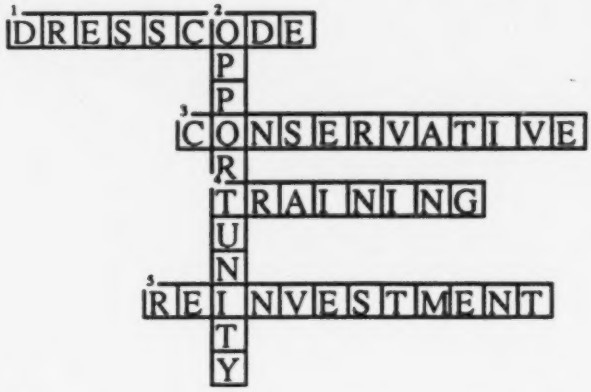
Learning Activity 1: Words to Remember

ACROSS

1. dress code
3. conservative
4. training
5. reinvestment

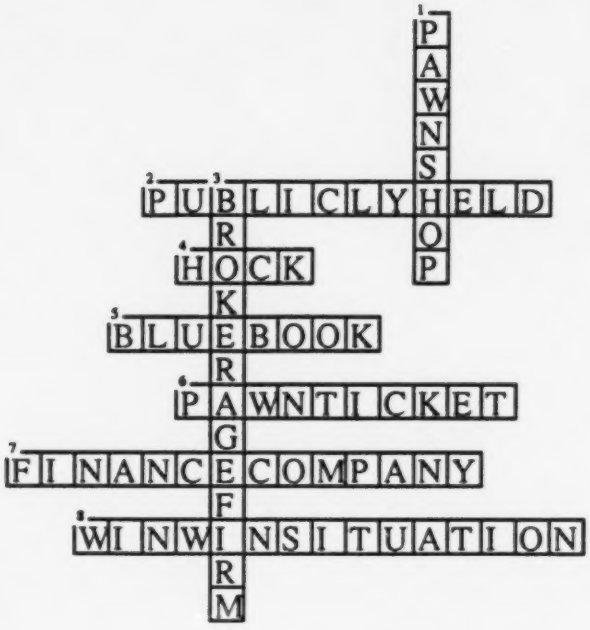
DOWN

2. opportunity



ASSIGNMENT 18: Related Financial Industries

Learning Activity 1: Words to Remember



ACROSS

2. publicly held
4. hock
5. blue book
6. pawn ticket
7. finance company
8. win-win situation

DOWN

1. pawn shop
3. brokerage firm

Assignment Quizzes

Name _____

QUIZ for Assignment 1: The Financial System

Multiple Choice (8 points each)

_____ 1. An item is _____ if it was dishonestly reproduced and used as the genuine item.
A. barter
B. counterfeit
C. standard currency

_____ 2. The earliest form of exchange was to _____ , or trade one item of value for another.
A. barter
B. counterfeit
C. standard currency

_____ 3. Money that cannot be spent by the institution but must remain as protection to the customer is known as _____.
A. credit money
B. reserves
C. commodity money

_____ 4. Another form of exchange, _____ , gave certain items a specific value upon which everyone in the community agreed and used to exchange for desired items of equal value.
A. credit money
B. reserves
C. commodity money

_____ 5. The money system used today is called _____, in which paper money and coins are receipts for the gold and silver on deposit with the government.
A. credit money
B. standard currency
C. bank notes

_____ 6. Common money accepted by all parties is known as _____.
A. counterfeit
B. barter
C. standard currency

_____ 7. Counterfeiting was prevalent in the nineteenth century because _____.
A. each bank issued its own coins and notes
B. thousands of new banks were formed
C. both A and B

_____ 8. An example of _____ might be if a prospector leaves some of his gold with the banker, who gives the prospector a receipt, which the prospector gives to the blacksmith to pay for having his horses shod.
A. barter
B. representative money
C. reserves

Short Answer (9 points each)

1. If you had been a businessperson in the U.S. colonies prior to 1791, what problems might you have faced with the banking system?

2. List the four major points of the National Bank Act.

   a.

   b.

   c.

   d.

3. Which of the weaknesses of the National Bank Act do *you* think was most important, *and why?*

4. Using the example of your choice, explain the concept of bartering.

Name _____

QUIZ for Assignment 2: The Federal Reserve System

Multiple Choice (8 points each)

_____ 1. A state-of-the-art communications network used by the Federal Reserve to transfer funds, information, and securities is called _____.
A. Fedwire
B. the Fed
C. reserves

_____ 2. Because the longer name is inconvenient, bankers call the Federal Reserve _____.
A. Fedwire
B. the Fed
C. reserves

_____3. An economic condition in which prices rise is known as _____.
A. recession
B. unemployment
C. inflation

_____ 4. When thousands of willing and able workers cannot find jobs, the _____ rate is high.
A. recession
B. unemployment
C. inflation

_____ 5. Local institutions that buy stock in their district's Federal Reserve bank are called _____.
A. member banks
B. savings and loans
C. credit unions

_____ 6. You can get spending money by _____.
A. earning or borrowing it
B. taking it out of savings
C. both A and B

_____ 7. The level of interest paid by member banks when borrowing money from the Federal Reserve is known as the _____.
A. discount rate
B. prime rate
C. interest rate

_____8. An economic condition in which income, employment, and production begin to decline is called _____.
A. inflation
B. unemployment
C. recession

Short Answer (9 points each)

1. What are the four basic functions of the Federal Reserve System?

   a.

   b.

   c.

   d.

2. Using an example of your choice, explain how the check collection system works.

3. How does the Federal Reserve supervise member banks?

4. How does the Federal Reserve act as the government's bank?

Name _____

QUIZ for Assignment 3: The Banking System and Its Structure

Multiple Choice (8 points each)

_____ 1. The money paid by a financial institution in exchange for using the customer's savings for its own investments is called _____.
A. credit union membership
B. nonprofit
C. interest

_____ 2. To be eligible for _____, customers must have a common bond shared by all other members of the group.
A. credit union membership
B. a charter
C. the dual banking system

_____ 3. Banks must have a (an) _____, which sets down the rules by which a business operates and grants permission for its operation.
A. interest
B. charter
C. nonprofit status

_____ 4. Banks may be chartered by _____.
A. the federal government only
B. the State government only
C. either the federal or the state government

_____ 5. Businesses that do not operate solely for the purpose of making money for the owner are known as _____.
A. entrepreneurial ventures
B. nonprofit operations
C. small businesses

_____ 6. Financial operations include more than commercial banking operations.
A. False—Commercial banks are the only legal financial operations found in the United States.
B. True—There are also retail credit businesses.
C. True—There are also savings banks, savings and loan associations, and credit unions.

_____ 7. Which of the following financial institutions is operated on a nonprofit basis?
A. credit unions
B. commercial banks
C. savings and loan associations

_____ 8. Which of the following are the largest providers of mortgage credit to homeowners?
A. credit unions
B. commercial banks
C. savings and loan associations

Short Answer (9 points each)

1. What is meant by a dual banking system?

2. Briefly describe the governing structure of a bank.

3. List *at least* three ways by which a bank can be classified.

   a.

   b.

   c.

4. Why would a person use a credit union instead of a bank?

Name _____

QUIZ for Assignment 4: Twentieth-Century Developments in the Banking Industry

Multiple Choice (8 points each)

_____ 1. An account that pays interest on the cash on deposit in checking accounts is known as a _____.
A. certificate of deposit
B. mortgage
C. NOW account

_____ 2. If you take out a _____ to buy a house, ownership remains with the lender until the loan is repaid.
A. certificate of deposit
B. mortgage
C. NOW account

_____ 3. Legislation passed to bring troubled savings and loans into an expanded FDIC is called _____.
A. junk bonds
B. FIRREA
C. margin credit

_____ 4. Because of the high risk, _____ pay high yields.
A. junk bonds
B. stocks
C. margin credit

_____ 5. Prior to the stock market crash of 1929, _____ allowed 90% of the purchase price to be financed through bank loans or directly by brokers.
A real estate laws
B. money market accounts
C. margin credit

_____ 6. Certificates denoting partial ownership of a corporation are known as _____.
A. certificates of deposit
B. stocks
C. real estate

_____ 7. The FDIC _____.
A. sets standards for member banks and examines them to ensure compliance
B. takes action to prevent troubled banks from failing and pays depositors if the bank fails
C. both A and B

_____ 8. The FDIC guarantees coverage at member banks on all deposits up to _____.
A. $100,000
B. $2,500
C. $1,000,000

Short Answer (9 points each)

1. Of the four jobs of the Federal Deposit Insurance Corporation, which do *you* think is most important, *and why?*

2. Which of the events leading up to the stock market crash of 1929 do *you* think was most critical to banking, *and why?*

3. How did interest rates on savings accounts and on loans affect the savings and loan crisis of the 1980s?

4. What are the two new federal agencies created to handle the S&L and bank crisis, and what are their roles?

   a.

   b.

Name _____

QUIZ for Assignment 5: A Checkless Society

Multiple Choice (8 points each)

_____ 1. If you make a deposit at the bank, the bank _____ your account.
A. debits
B. credits
C. closes

_____ 2. When your bank receives a check you wrote for your car insurance, the bank _____ your account.
A. debits
B. credits
C. closes

_____ 3. Banks and businesses use _____ to debit one account and credit another by computer.
A. personal identification numbers
B. electronic funds transfer
C. automatic teller machines

_____ 4. Customers use _____ to handle a number of banking functions, especially cash withdrawals.
A. supermarket debits
B. electronic funds transfer
C. automatic teller machines

_____ 5. You shouldn't use obvious numbers, such as your birthdate or social security number, for your _____.
A. smart card
B. supermarket debit
C. personal identification number

_____ 6. A _____ has a microprocessor in the plastic and allows the user to store transferred funds until merchants deduct purchases made by the user.
A. smart card
B. supermarket debit
C. withdraw

_____ 7. About how many checks are written each day?
A. 2 million
B. 400 million
C. 100 million

_____ 8. The function of EFTS is to remove check cashing completely from our society.
A. True—By 2000, we will no longer use checks.
B. False—EFTS was designed to reduce the huge numbers of checks processed.
C. False—EFTS was designed to make the supermarket debit system work.

Short Answer (9 points each)

1. Why do *you* think check cashing is expensive for financial institutions?

2. Why do *you* think the Social Security Administration and employers use electronic funds transfer instead of checks?

3. How does bill paying by telephone or computer work?

4. List *at least* two services an ATM offers in addition to withdrawing cash.

   a.

   b.

   c.

Name _____

QUIZ for Assignment 6: Current Trends and the Future of Financial Institutions

Multiple Choice (8 points each)

_____ 1. A group of stocks offered by an investment company to sell in one package is called _____.
A. a three-way link
B. mutual funds
C. a passive organization

_____ 2. A business that waits for customers to come to it, rather than actively seeking customers, is known as a _____.
A. three-way link
B. full-service financial organization
C. passive organization

_____ 3. Additional training designed to upgrade job skills is referred to as _____.
A. reeducation
B. deregulation
C. bilingual

_____ 4. Because of the savings and loan crisis of the 1980s, _____ ended when Congress enacted stricter laws.
A. reeducation
B. deregulation
C. technology

_____ 5. As financial institutions move toward a consolidation of areas, they illustrate _____.
A. the industry concept
B. competition
C. technology

_____ 6. The combination of the telephone, computer, and television will provide customers with faster information service, which illustrates the _____ trend.
A. market
B. technology
C. competition

_____ 7. The _____ trend might be illustrated by financial institutions moving into low- and moderate-income neighborhoods and investing in sales training and incentives.
A. market
B. technology
C. competition

_____ 8. People who speak another language in addition to English are _____.
A. bilingual
B. ambidextrous
C. monolingual

Short Answer (9 points each)

1. Give *at least* two markets that financial institutions target.

   a.

   b.

   c.

2. Describe how a three-way link is used for financial transactions.

3. Thought question—Why do *you* think government regulation of financial institutions is necessary?

4. Why can financial institutions no longer remain passive organizations?

Name _____

QUIZ for Assignment 7: Banking Operations

Multiple Choice (8 points each)

_____ 1. An account that has a specific maturity date and a penalty for early withdrawals is called a _____.
A demand deposit
B. lifeline account
C. time deposit

_____ 2. A _____ is designed to offer inexpensive banking services to young people and senior citizens.
A demand deposit
B. lifeline account
C. time deposit

_____ 3. The _____ function allows customers to withdraw all or a portion of the funds in their accounts.
A. deposit
B. lending
C. paying

_____ 4. The _____ function involves the holding of a customer's money for safekeeping.
A. deposit
B. trust
C. paying

_____ 5. A self-employed doctor, lawyer, or free-lance artist might set up a (an) _____ for retirement income.
A. individual retirement account (IRA)
B. Keogh account
C. guardianship

_____ 6. A _____ establishes a fund for minors which is held until the child reaches a more financially responsible age.
A. certificate of deposit
B. statement
C. guardianship

_____ 7. The person who opens a _____ can make deposits and withdrawals at any time, whereas a _____ has a specific maturity date with penalties for early withdrawal.
A. time deposit . . . savings account
B. Keogh account . . . lifeline account
C. savings account . . . time deposit

_____ 8. The record a financial institution provides to the customer showing deposits, withdrawals, and balance is known as a _____.
A. statement
B. guardianship
C. certificate of deposit

Short Answer (9 points each)

1. Thought question—Of the four major functions a financial institution offers, which do ***you*** think is most important, *and why?*

2. What is a certificate of deposit, and why might a customer want one?

3. Give an example of how a person can save with a club account.

4. Briefly explain the lending function of financial institutions.

Name _____

QUIZ for Assignment 8: Deposit and Paying Functions

Multiple Choice (8 points each)

_____ 1. A _____ is a transaction involving paying out money from a customer's account.
A withdrawal
B. deposit
C. receipt

_____ 2. When the teller accepts the customer's _____, the amounts are verified and a receipt is given to the customer.
A withdrawal
B. deposit
C. currency

_____ 3. Customers can make deposits _____.
A. in person at the financial institution
B. through an automatic teller machine (ATM)
C. either A or B can done

_____ 4. Tellers process large volumes of checks to be _____ , which are drawn on a bank other than the one where the check is presented.
A. redeemed
B. cashed
C. printed

_____ 5. Which of the following is a safeguard of the ATM withdrawal process?
A. if the card is reported stolen, the machine keeps the card
B. if after several tries, the card user cannot correctly input the PIN, the machine keeps the card
C. both A & B are safeguards

_____ 6. Customers can withdraw money by _____.
A. completing a withdrawal slip or using an ATM *only*
B. writing a check *only*
C. either A or B can be done

_____ 7. Another term for money is _____.
A. legal tender
B. withdrawal
C. plastic

_____ 8. In order to operate an ATM, _____ is needed.
A. an ATM card
B. a personal identification number
C. both A and B are needed

Short Answer (9 points each)

1. What happens to an ATM customer if there is not enough money in the account to cover the amount requested?

2. Thought question—Why do *you* think financial institutions cash checks, even though the risks are great?

3. List three elements found on a deposit receipt.

   a.

   b.

   c.

4. Thought question—Of the three ways a customer can take money out of an account, which do *you* think will be most popular five years from now, *and why?*

Name _____

QUIZ for Assignment 9: The Lending Function

Multiple Choice (8 points each)

_____ 1. A person who guarantees payment of a loan if the borrower defaults is called a _____.
A collateral
B. cosigner
C. portfolio

_____ 2. The group of loans a bank has made is a _____.
A line of credit
B. prime rate
C. portfolio

_____ 3. A loan that includes an asset the borrower pledges to the lender is known as a (an) _____ loan.
A. secured
B. unsecured
C. line of credit

_____ 4. Stocks and insurance policies are considered _____, but a car or real estate is _____.
A. tangible ... intangible
B. financial ... an asset
C. intangible ... tangible

_____ 5. A company may establish a _____ to draw on a prearranged and approved amount of money.
A. portfolio
B. line of credit
C. prime rate

_____ 6. A bank charges _____ to its best customers, who have excellent credit ratings.
A. collateral
B. a line of credit
C. the prime rate

_____ 7. Most often used to buy cars, trips, or home improvements, banks profit from _____ loans due to the higher interest rate.
A. consumer credit
B. commercial
C. interbank

_____ 8. Due to the large amount granted for each loan, _____ loans have increased risk and responsibility for the lending officers.
A. consumer credit
B. commercial
C. interbank

Short Answer (9 points each)

1. List the four separate departments that play a major part in the loan process.

   a.

   b.

   c.

   d.

2. Thought question—Of the four areas listed above, which do *you* think is most important to making good loans?

3. List the three areas of lending that are regulated by law.

   a.

   b.

   c.

4. What are *at least* two factors that affect the setting of interest rates?

   a.

   b.

   c.

Name _____

QUIZ for Assignment 10: The Investment Trust Function

Multiple Choice (8 points each)

_____ 1. The legal term for having left a valid will in keeping with state law is _____.
A decedent
B. executor
C. testate

_____ 2. Someone named in a will to carry out its instructions is the _____.
A. decedent
B. executor
C. beneficiary

_____ 3. Holding and managing assets for the benefit of someone else is a _____ service.
A. fiduciary
B. minor
C. beneficiary

_____ 4. A person who is of less than legal age is referred to as a (an) _____.
A. agent
B. minor
C. trustee

_____ 5. The legal term for a person who has died is _____.
A. decedent
B. intestate
C. trustee

_____ 6. A person who is given specific authority to act on behalf of a person who still legally owns the property is a (an) _____.
A. agent
B. minor
C. testate

_____ 7. Which of the following are services an agent offers an individual?
A. safekeeping and custody
B. managing and escrow
C. both A and B are available

_____ 8. If a person dies without a will or if the will is ruled invalid, the person has died _____.
A. testate
B. intestate
C. in fiduciary

Short Answer (9 points each)

1. List the five fiduciary services offered by financial institutions.

   a. d.

   b. e.

   c.

2. Thought question—Why do *you* think financial institutions offer fiduciary services?

3. Why might a company establish employee trusts?

4. Why are employee trust funds so competitive?

Name _____

QUIZ for Assignment 11: Other Financial Services

Multiple Choice (8 points each)

_____ 1. A transaction that is paid at the time of purchase, such as buying groceries at a supermarket, is known as _____.
A certified check
B. a debit card
C. point-of-sale

_____ 2. When selling a car to someone you may or may not know, _____ is the banks guarantee that you will get your money.
A. a certified check
B. a debit card
C. a safe-deposit box

_____ 3. Within the bank's vault, _____ are rented to customers for storing anything they wish.
A. cashier's checks
B. safe-deposit boxes
C. bank cards

_____ 4. The most common _____ are VISA and MasterCard.
A. certified checks
B. debit cards
C. bank cards

_____ 5. Through the electronic transfer of funds, _____ enable customers to pay for purchases with an immediate payment to the store.
A. certified checks
B. debit cards
C. bank cards

_____ 6. Banks and other companies issuing bank cards make money by _____.
A. assessing a yearly fee for having the card
B. charging high interest rates on the unpaid balance
C. both A and B

_____ 7. Financial services develop in response to customers' needs.
A. True—but they should be cost-effective and profitable.
B. True—financial institutions will offer any service any customer wants, regardless of its cost.
C. False—services are determined by the board of directors, not by customers' needs.

_____ 8. Cashier's checks are available at _____ for a fee.
A. financial institutions
B. places such as supermarkets and convenience stores
C. both A and B

Short Answer (9 points each)

1. How does a person gain access to his or her safe deposit box?

2. Thought question—Why do *you* think certified checks are important for both the buyer and the seller of an expensive item?

3. Why do banks and other companies compete for credit card customers?

4. How do cardholders benefit from the competition?

Name _____

QUIZ for Assignment 12: Research and Planning

Multiple Choice (8 points each)

_____ 1. The decisions a business makes in producing and selling its products is called _____.
A product planning
B. service planning
C. market research

_____ 2. The gathering of factual information about consumer preferences for products and services is _____.
A. database
B. demographics
C. market research

_____ 3. Once a business has collected information, a _____ allows for rapid search and retrieval by computers.
A. database
B. demographics
C. market research

_____ 4. The decisions a business makes regarding the for-sale or free services offered to customers is _____.
A. product planning
B. service planning
C. information planning

_____ 5. After World War II, banks began to market their products.
A. False—Banks have always actively marketed their products and services.
B. True—Banks have always provided their customers with many services and personal consideration.
C. True—When banks realized that other financial institutions were providing services and winning customers, banks had to market their products to recapture the market they had lost.

_____ 6. The statistical information about human populations used to identify markets is known as _____.
A. product planning
B. demographics
C. a database

_____ 7. The need for bilingual personnel in financial institutions is growing because _____.
A. banks are moving into low-income parts of town where English may be a second language
B. many banks want employees who have two college degrees
C. all banks want employees with two hands

_____ 8. Databases can be obtained from _____.
A. companies that specialize in compiling such information
B. trade associations or, if large enough, the financial institution itself
C. both A and B are sources

Short Answer (9 points each)

1. List *at least* three of the areas in which databases provide information.

   a.

   b.

   c.

   d.

2. Of the areas listed above, which do *you* think is most important to a financial institution, *and why?*

3. How can financial institutions use database information to determine future projects?

4. Do you think bilingual personnel would be beneficial in financial institutions in your community. *Why or why not?*

Name _____

QUIZ for Assignment 13 Advertising and Promotion

Multiple Choice (8 points each)

_____ 1. A one-page promotional flyer included in monthly statements or other mailings is called a(an) _____.
A newsletter
B. insert
C. trade publication

_____ 2. Advertising can be handled _____.
A. at the corporate headquarters by the advertising department
B. by advertising agencies
C. either A or B is an option

_____ 3. The same ad should be used in several sections of the newspaper.
A. True—The same people read all sections.
B. False—The message should change according to the section (business, sports, city and state, etc.).
C. True—The same ad should be used for at least one year so that everyone recognizes it.

_____ 4. Credit unions have _____ to feature information of interest to its members.
A. newsletters
B. inserts
C. trade publications

_____ 5. Designed to promote an idea to consumers, examples of _____ might be Ford's ads featuring the slogan "Quality is Job 1."
A. cross-selling
B. concept advertising
C. product advertising

_____ 6. A bank that offers mutual funds, insurance, and mortgage services can use _____ for attracting customers.
A. cross-selling
B. concept advertising
C. product advertising

_____ 7. Which of the following is a form of advertising used by financial institutions?
A. radio and television
B. newspapers, magazines, and direct mail
C. all of these are options

_____ 8. Which of the following target specific customers?
A. newspapers
B. direct mail
C. television

Short Answer (9 points each)

1. Thought question—Of all the forms of advertising, which do *you* think is the best for financial institutions?

2. Why are the services of credit unions promoted differently from other financial institutions?

3. Using the examples of your choice, explain how cross-selling in financial institutions works.

4. Why do *you* think concept advertising is used by financial institutions?

Name _____

QUIZ for Assignment 14: Risk Management

Multiple Choice (8 points each)

_____ 1. Using a scrambled signature system and knowing what to do in a hold-up situation are examples of _____ in risk management.
A internal controls
B. environmental controls
C. external controls

_____ 2. A person who presents a check for $1,000 and wants $800 in cash and $200 deposited to his or her account has made a _____.
A. cash count
B. split deposit
C. signature card

_____ 3. Prenumbered forms, mandatory vacations, and rotation of duties are examples of _____.
A. internal controls
B. environmental controls
C. external controls

_____ 4. An unannounced _____ might be done to verify the accuracy of a teller or to determine whether an employee theft has occurred.
A. cash count
B. split deposit
C. signature card

_____ 5. The things a business does to protect itself from losses due to human, natural, or economic condition is known as _____.
A. a scrambled signature system
B. internal controls
C. risk management

_____ 6. With _____, a special camera lens reads a depositor's distorted handwriting for identification purposes.
A. a scrambled signature system
B. internal controls
C. a split deposit

_____ 7. Employees should _____ in case of an armed robbery.
A. hand over decoy or marked money which can be traced when spent
B. keep the robber's note for fingerprint identification
C. both A and B, as well as undergoing thorough training

_____ 8. Access to the full computer system should be _____.
A. available to all employees
B. limited to only a few persons
C. available to employees who have been there more than three years

Short Answer (9 points each)

1. Thought question—Which do *you* think are more important—internal controls or external controls, *and why?*

2. Why is training in risk management an ongoing process?

3. Why do financial institutions have signature cards for their customers?

4. How can inefficient operations be an invitation to employee dishonesty?

Name _____

QUIZ for Assignment 15: International Banking

Multiple Choice (8 points each)

_____ 1. A large bank in New York City that provides financial services to banks in Acapulco, Panama City, and Havana is an example of _____.
A. the correspondent banking system
B. money exchange
C. a letter of credit

_____ 2. A document that calls for immediate payment upon receipt of shipping documents is called a _____.
A traveler's check
B. sight letter
C. time letter

_____ 3. A letter of credit _____.
A. guarantees that payment will be made
B. allows the importer to pay before receiving the goods
C. both A and B

_____ 4. Trading an established amount of U.S. dollars for an established amount of German marks or Japanese yen describes a _____.
A. money exchange
B. traveler's check
C. Citibank

_____ 5. Individuals traveling outside the United States for business or personal reasons are best served by using _____, which guarantee payment to the business accepting them.
A. international banking
B. traveler's checks
C. time letters

_____ 6. A network of financial institutions that handle worldwide credit, payments, and currency exchange for businesses and individuals describes _____.
A. international banking
B. the correspondent banking system
C. letters of credit

_____ 7. Branch banking in foreign countries has shown minimal growth in the past 50 years.
A. True—U.S. banks want to stay out of foreign countries.
B. False—U.S. banks have gone from only 7 foreign branches in 1947 to one bank alone operating in 93 countries by 1993.
C. True—There is no need for U.S. banks to have foreign branches; they need to cooperate with foreign banks.

_____ 8. A document that specifies a later date for payment is called a _____.
A. traveler's check
B. sight letter
C. time letter

Short Answer (9 points each)

1. Why is an international banking system necessary in a global economy?

2. List and describe the four common types of international banking.

   a.

   b.

   c.

   d.

3. Why might a foreign bank want to establish a branch in the United States?

4. Could a foreign bank be successful in your community? In 50 words or so, explain why or why not.

Name _____

QUIZ for Assignment 16: Preparing for Employment

Multiple Choice (8 points each)

_____ 1. The vocabulary used in a specific industry is known as _____.
A networking
B. jargon
C. keyboarding

_____ 2. Training that includes the basics of typewriting and adds supplemental keystrokes available on the computer is called _____.
A networking
B. jargon
C. keyboarding

_____ 3. A series of meetings designed for an audience of people employed in a specific business or industry is called _____.
A. professional conferences
B. computer literacy
C. professional journals

_____ 4. Knowing the way computers operate is _____.
A. professional conferences
B. computer literacy
C. professional journals

_____ 5. Contacts with others in the same business made by talking with and listening to them is known as _____.
A. networking
B. computer literacy
C. jargon

_____ 6. Many opportunities for employment exist in the financial services industry.
A. True—Financial institutions employ an estimated two million men and women in a wide variety of jobs.
B. False—Financial institutions will be replaced by computers and ATMs by 2005.
C. True—More than ten million people aged 28 to 58 work in financial institutions.

_____ 7. While in high school, _____ courses are important if you are considering a career in financial institutions.
A. accounting, business, and economics
B. communications and advertising
C. all of these are important

_____ 8. To keep up with changes occurring in the financial services industry, _____.
A. the company will educate its employees
B. employees need to do some things on their own
C. both A and B

Short Answer (9 points each)

1. Thought question—Why do *you* think each employee needs to become knowledgeable about computers?

2. Of the computer courses offered in your high school, which do *you* think is most helpful to someone planning a career in financial institutions, *and why?*

3. List *at least* two professional journals an employee of a financial institution might read to keep up with industry changes.

   a.

   b.

   c.

4. Thought question—Why do *you* think the employee needs to do things on his or her own to keep up with industry changes?

Name _____

QUIZ for Assignment 17: Training in Bank, Credit Union, or Savings and Loan

Multiple Choice (8 points each)

_____ 1. The expectations of the business regarding _____ are found in the dress code.
A clothing and accessories
B. grooming
C. both A and B

_____ 2. A good chance for advancement occurring at an appropriate time is called _____.
A. reinvestment
B. an opportunity
C. training

_____ 3. Money being circulated within the community instead of immediately going outside the community is known as _____.
A. reinvestment
B. opportunity
C. training

_____ 4. The traditional norms of taste, style, and manners are referred to as _____.
A. dress code
B. conservative
C. ornamental

_____ 5. Training involves a _____ method of teaching employees job skills.
A. formal
B. informal
C. either A or B

_____ 6. Employers must be trained in _____.
A. the functional skills they need to do their jobs
B. laws and regulations that affect them
C. both A and B

_____ 7. Businesslike attire for women is _____.
A. dresses or skirts and blouses
B. jeans and blouses or sweaters
C. it really doesn't matter

_____ 8. Businesslike attire for men is _____.
A. suits or slacks and business shirts with neckties
B. jeans and knit shirts
C. it really doesn't matter

Short Answer (9 points each)

1. What are the five main factors that influence an institution's success in business?

   a.

   b.

   c.

   d.

   e.

2. Of the five factors listed in #1 above, which do *you* think is most important, *and why?*

3. Briefly discuss employment opportunities in the financial services industry.

4. Why do *you* think there is a need for ongoing training as it relates to changes in laws?

Name _____

QUIZ for Assignment 18: Related Financial Industries

Multiple Choice (8 points each)

_____ 1. A store that loans money based on the security of personal property is known as a _____.
A. retail operation
B. pawn shop
C. publicly held corporation

_____ 2. Anyone could be a part owner of a _____ by purchasing shares of stock.
A. retail operation
B. pawn shop
C. publicly held corporation

_____ 3. Before a pawn shop employee can lend money on the customer's item, the employee must refer to the _____ to determine its value.
A. pawn ticket
B. blue book
C. price book

_____ 4. Pawn shops are popular lending institutions for customers desiring small loans because ____.
A. they accept stolen merchandise
B. they charge a higher interest rate
C. many banks wouldn't consider lending small amounts

_____ 5. Credit can be granted by a ____ through the company's own credit card or by allowing the purchase of a major item to be paid for in monthly payments.
A. retail operation
B. pawn shop
C. publicly held corporation

_____ 6. A pawn ticket contains _____.
A. personal information about the customer
B. loan information and serial numbers of the items being held
C. both A and B

_____ 7. A pawn shop owner views his or her operation as a _____ situation because if the person repays the loan the pawn shop receives interest, and if the person abandons the item the shop can sell it for twice as much as it loaned.
A. win-win
B. lose-lose
C. win-lose

_____ 8. People interested in a career in retail credit should enjoy _____.
A. working with people
B. taking care of important details
C. both A and B

Short Answer (9 points each)

1. Would *you* go to a pawn shop for a small loan? *Why or why not?*

2. How is retail credit similar to the loan function of a bank?

3. Why is the computer a valuable tool in pawn shops?

4. How do retail credit operations have a win-win situation?

Answers to Assignment Quizzes

Assignment 1: The Financial System

1. B	3. B	5. A	7. C
2. A	4. C	6. C	8. B

1. Use your judgment in evaluating this response. The student manual states, "Before 1791, banks often failed because there was no government regulation. Not much gold was available as a basis for a healthy bank system, and there was no standard currency."

2. The National Bank Act:
   - created a system of national banks
   - created the office of Comptroller of the Currency
   - authorized a uniform currency
   - established a system of required reserves

3. Use your judgment in evaluating the "why" portion. The student manual cites these three weaknesses, one of which should be referenced in the response:
   - no system existed for the speedy presentation and collection of checks
   - the amount of money in circulation was not keyed to the best interests of the U.S.
   - the act was too strict

4. Use your judgment in evaluating this response, which should refer to the definition of barter, the trading of one item of value for another.

Assignment 2: The Federal Reserve System

1. A	3. C	5. A	7. A
2. B	4. B	6. C	8. C

1. The four basic functions of the Federal Reserve System are that it :
   - serves as a banker's bank
   - serves as the government's bank
   - supervises member banks
   - controls the country's money supply

2. Use your judgment in evaluating this response, which should refer to the fact that the original check is sent to the payee's bank, which sends it to the Federal Reserve, which collects the check and presents it for payment at the bank on which it was drawn.

3. Member banks are supervised through regulations the Federal Reserve issues, as well as by periodic visits from bank examiners.

4. The Federal Reserve keeps the accounts of the government, just as a bank would for a customer. As the government spends money on projects, it writes checks on accounts it has under the Federal Reserve System, which keeps and sends regular statements to the government.

Assignment 3: The Banking System and Its Structure

1. C	3. B	5. B	7. A
2. A	4. C	6. C	8. C